

Tradeweb Markets Inc.

4Q23 First Impression – Positive overall results given earlier comp

Maintain Rating: BUY | PO: 105.00 USD | Price: 97.37 USD

EPS matches consensus; forward commentary bullish

Tradeweb (TW) reported adjusted EPS of \$0.64 which matches the consensus & BofAe. Net revenues were also in-line with expectations while expenses came in modestly higher (2% miss). Against the backdrop of negative forward commentary on 1Q24 from its peer MarketAxess (MKTX) last week, we think today's results will be positive for the stock. In the prepared remarks, TW notes that Jan rev growth was over 20% y/y.

Missed the memo on macro headwinds in January

Last week, MKTX guided toward modestly lower market share in IG and materially lower market share in high yield, blaming macro headwinds such as reduced electronic market maker participation and an adverse mix shift toward distressed credits which trade mainly via voice. However, TW appears to have missed that memo. While IG share is flattish in January vs 4Q, HY share is up both m/m and QTD relative to 4Q.

Expense guide slightly higher than forecasted

Management initiated their full-year 2024 expense guide at \$755-\$805M. Although the midpoint is 4% higher than our current estimate (\$751M), management expects to grow margins on either end of the expense range. We believe there is a fair amount of flexibility in that guide based on how revenues trend this year.

Maintain Buy rating; Earnings call @ 9:30am ET

We think there is meaningful runway left for e-trading adoption in fixed income and believe TW is best positioned to capitalize on that opportunity. On the call, we are looking for updates on HY market share, emerging market growth, pricing and M&A.

Exhibit 1: TW 4Q23 actuals vs. our estimates

Although expenses were a bit hot, TW financials were mostly in-line with our estimates & the Street

	4Q22	3Q23	4Q23E	4Q23A	Beat (Miss) %	QoQ	YoY
Adjusted EPS	\$0.49	\$0.55	\$0.64	\$0.64	0%	16%	31%
Net Revenues	293	328	369	370	0%	13%	26%
Adjusted Expenses	152	173	185	189	-2%	10%	25%
High Grade Market Share	14%	17%	-	17%		1%	3%
High Yield Market Share	7%	8%	-	7%		-1%	0%

Source: Company reports, BofA Global Research

BofA GLOBAL RESEARCH

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	1.63	1.90	2.26	2.62	3.03
EPS Change (YoY)	24.4%	16.6%	18.9%	15.9%	15.6%
Consensus EPS (Bloomberg)			2.26	2.56	2.83
DPS	0.32	0.32	0.36	0.40	0.44
Valuation (Dec)					
P/E	59.7x	51.2x	43.1x	37.2x	32.1x
Dividend Yield	0.3%	0.3%	0.4%	0.4%	0.5%

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Refer to important disclosures on page 5 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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Stock Data

Price	97.37 USD
Price Objective	105.00 USD
Date Established	11-Jan-2024
Investment Opinion	B-1-7
52-Week Range	64.83 USD -100.24 USD
Mrkt Val / Shares Out (mn)	20,520 USD / 210.7
Free Float	99.4%
Average Daily Value	97.51 USD
BofA Ticker / Exchange	TW / NAS
Bloomberg / Reuters	TW US / TW.OQ
ROE (2023E)	10.3%
ESGMeter™	Medium

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HY/HG: High-yield/High-grade

iQprofileSM Tradeweb Markets Inc.

Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$ Millions)					
Total Net Revenue	1,076	1,189	1,337	1,486	1,657
% change	20.6%	10.4%	12.5%	11.1%	11.5%
Compensation & Benefit	(390)	(412)	(455)	(487)	(521)
% change	16.0%	5.5%	10.4%	7.0%	7.0%
Non-Compensation Expenses	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Total Expenses	(576)	(624)	(690)	(751)	(818)
% change	15.3%	8.2%	10.7%	8.8%	8.9%
Operating Income	500	565	647	734	838
% change	27.3%	13.0%	14.4%	13.6%	14.2%
Reported Net Income	388	451	535	623	721
% change	26.5%	16.3%	18.7%	16.4%	15.7%
Adjusted Net Income	389	450	536	623	722
% change	27.0%	15.7%	19.2%	16.1%	15.9%

Performance Metrics (Dec)

	2021A	2022A	2023E	2024E	2025E
Operating Margin	46.5%	47.5%	48.4%	49.4%	50.6%
Compensation Expense/Revenue	36.3%	34.7%	34.0%	32.8%	31.4%
Non-Compensation Expense/Revenue	17.3%	17.8%	17.6%	17.8%	18.0%
Dividend Payout Ratio	16.6%	14.6%	14.2%	13.6%	12.9%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Assets	5,990	6,260	6,736	7,274	7,902
Cash and Investments	972	1,257	1,632	2,148	2,751
Long-Term Debt	0	0	0	0	0
Total Shareholders' Equity	4,646	4,954	5,428	5,966	6,594

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

	2022	2023
Q1	0.48A	0.54A
Q2	0.47A	0.52A
Q3	0.45A	0.55A
Q4	0.49A	0.64E

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 \$105 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.

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BUY				
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	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



US - Brokers, Asset Managers, & Exchanges Coverage Cluster

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iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

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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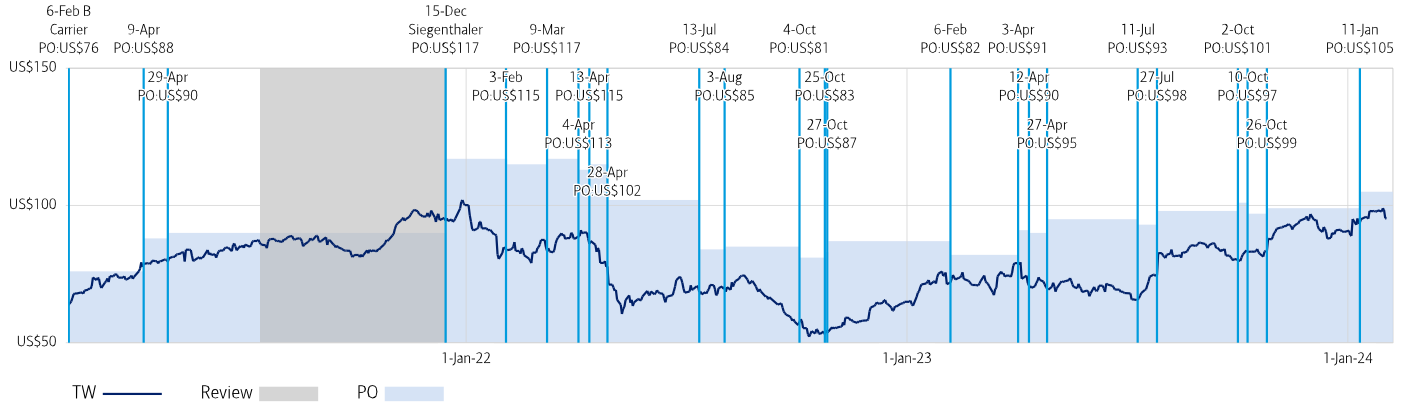
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Tradeweb (TW) Price Chart



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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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Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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