BGC Group, Inc.

Q4 2023 EARNINGS CALL TRANSCRIPT

Company Participants

Howard W. Lutnick, Chairman and Chief Executive Officer

Sean Windeatt, Chief Operating Officer, Co-Global Head of Brokerage

Jason W. Hauf, Chief Financial Officer

Jason Chryssicas, Head of Investor Relations

Other Participants

Patrick Moley, Analyst, Piper Sandler

Owen Lau, Analyst, Oppenheimer

Operator

Greetings, and welcome to the BGC Group Fourth Quarter and Full Year 2023 Conference Call.

At this time, all participants are in listen-only mode. A brief question-and-answer session will follow the formal presentation. (Operator Instructions) As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. Jason Chryssicas, Head of Investor Relations. Please begin, sir.

Jason Chryssicas

Thank you and good morning.

We issued BGC's fourth quarter and full year 2023 financial results press release and the presentation summarizing these results this morning. You can find these at ir.bgcg.com. Please note you can find additional details on our quarterly results in today's press release and investor presentation.

Unless otherwise stated, any historical results provided on today's call compare only the fourth quarter of 2023 with the prior-year period. Certain revenue figures are provided for the current period as indicated.

We will be referring to our results on this call only on an Adjusted Earnings basis, unless otherwise stated. We may also refer to Adjusted EBITDA. We may refer to our liquidity, which we define as cash and cash equivalents, reverse repurchase agreements and financial instruments owned at fair value, less securities loaned and repurchase agreements. We define total capital as redeemable partnership interest, total stockholders equity, and non-controlling interest in subsidiaries.

Please see today's press release for results under Generally Accepted Accounting Principles or GAAP. Please also see the relevant sections in the back of today's press release for the complete and updated definitions of any non-GAAP terms, reconciliations of these items to the corresponding GAAP results, and how, when, and why management uses such terms. Additional information with respect to our GAAP and non-GAAP results mentioned on today's call is available on our website at ir.bgcg.com and in our investor presentation.

We refer to the company's technology-driven business as Fenics. Fenics' offerings include Fenics Markets and Fenics Growth Platforms.

I also remind you that any information on today's call that is not historical are forward-looking statements. These include statements about the company's business results, financial position, liquidity, and outlook. Any forward-looking statements involve risks and uncertainties and, except as required by law, BGC undertakes no obligation to update any forward-looking statements. Any outlook and targets discussed on this call assume no material acquisitions, buybacks, extraordinary transactions or meaningful changes to the company's stock price.

For a discussion of additional risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see BGC's SEC filings, including, but not limited to, the risk factors and special note on forward-looking information set forth in these filings and any updates to such risk factors and special note on forward-looking information contained in subsequent reports on Form 10-K, Form 10-Q, and Form 8-K.

I'm now happy to turn the call over to Howard Lutnick, Chairman of the Board and CEO of BGC Group.

Howard Lutnick

Thank you, Jason.

Good morning and welcome to our Fourth Quarter and Full Year 2023 Conference Call.

With me today are our Chief Operating Officer, Sean Windeatt, and our Chief Financial Officer, Jason Hauf.

BGC had its best fourth quarter with record revenues and Adjusted Earnings. Our revenues improved over 18%, ending a strong year where we delivered accelerating year-over-year revenue growth each quarter.

We expect favorable macro trading conditions to continue throughout 2024. With our global breadth and scale, we will continue to capitalize on interest rate and energy market volatility and higher fixed income issuance across both government and corporate bonds.

We are pleased with the CFTC's recent unanimous approval for FMX to operate an exchange for US interest rate futures products, which are the largest and most widely traded futures contracts in the world. We intend to launch the FMX Futures Exchange in the summer of '24 and we plan to discuss our strategic partners and further details on or before our first quarter earnings call.

I'd now like to turn the call over to Sean.

Sean Windeatt

Thanks and good day, everyone.

Our fourth quarter revenues grew by 18.4% to $516.8 million and represented our highest ever fourth quarter revenue performance. This growth was driven by the Americas and EMEA, which improved by 21.9% and 20.5%, respectively.

Total brokerage revenues grew by 16.1%, driven by strong growth across Energy and Commodities, Rates, and Foreign Exchange.

Revenues from our Energy and Commodities business improved by 42.3%, where we saw strong double-digit growth across our energy complex and environmental products, including our new weather derivatives business. Rates revenues increased by 26.1%, reflecting broad-based growth across interest rate products. Foreign Exchange revenues improved by 7.5%, driven by higher volumes across G10 and emerging markets currencies.

BGC's Credit revenues decreased by 3.6%, primarily due to a strong comparable period a year ago, partially offset by higher volumes across emerging markets, US and UK credit products. We expect BGC's Credit business to grow in line with our overall business in 2024, benefiting from record new issuance and interest rate volatility. Equities revenue declined by 3.8%, reflecting lower cash equity volumes, partially offset by higher equity derivatives activity.

Data, Network, and Post-trade revenues improved by 17.9%, driven by Fenics Market Data and Lucera, our network business.

Turning to Fenics in more detail.

In the fourth quarter, Fenics revenues grew by 20.1% to $130.8 million. These higher margin, technology-driven businesses accounted for more than 25% of BGC's total revenue during the period. For the full year 2023, Fenics generated $521.7 million, an improvement of 16.1%. Fenics' fourth quarter and full year revenue growth was led by our electronic Rates, Credit, and our Data, Network, and Post-trade businesses. This record performance drove Fenics revenue above $500 million for the first time. At this scale, Fenics is now one of the largest electronic platforms across the capital markets.

Our Fenics Markets businesses generated revenue of $109.6 million in the fourth quarter, an increase of 16.5%. This growth was driven by higher electronic Rates, Credit and Foreign Exchange volumes, along with stronger Fenics Market Data subscription revenues. Fenics Market Data signed new customer contracts in the fourth quarter with an aggregate contract value 30% higher compared to the same period last year. I'd like to highlight Fenics Market Data's continued success in its regulatory solutions business, which we expect to enhance our growth.

Our Fenics Growth Platforms generated fourth quarter revenues of $21.2 million, up 43.3%, primarily driven by Fenics UST, PortfolioMatch, and Capitalab.

Fenics UST revenue increased by over 70% on a 38% improvement in average daily volume. Fenics UST grew its market share to 26% in the fourth quarter, up from 25% in the third quarter of 2023 and 20% a year ago. This momentum has carried forward into January, achieving new record ADV that was 44% higher than January last year.

PortfolioMatch's US credit volumes improved more than threefold, driven by new accounts and deepening relationships in this fast growing segment of the market. We are pleased with the success that this platform has seen, which in just two years has gained significant share in a market that had historically been dominated by a single incumbent.

Capitalab, our post-trade business, generated revenue growth of nearly 90%, driven by higher interest rate compression and foreign exchange matching volumes. We expect demand for our Capitalab post-trade products to grow as global banks optimize their balance sheets in an ever-evolving regulatory regime.

Lucera, our network infrastructure business, saw double-digit revenue growth, led by new client contracts and broadening product coverage with existing clients. Lucera continues to see strong demand for its LumeMarkets offering, a multi-asset trading system used by many of the world's largest banks.

Turning to our outlook. I'm pleased to provide the following guidance for the first quarter of 2024. We expect to generate total revenue of between $560 million and $610 million as compared to $532.9 million in the first quarter of 2023. We anticipate pre-tax adjusted earnings to be in the range of $126 million to $144 million versus $124.6 million last year.

Our business continues to expand and our guidance reflects investments in several growth areas. For example, we have made a substantial investment in our global interest rate derivative product suite. We also recently reentered the Japanese interest rates market. After 20 years of ultra-low and even negative interest rates, we expect positive interest rates and the related transaction volumes to return to the Japanese rates market. Additionally, we continue to invest in our FMX Futures Exchange in preparation for its summer launch. These investments will increase our revenues and expand our margins in the near term.

With that, I'd like to turn the call over to Jason.

Jason Hauf

Thank you, Sean, and hello, everyone.

BGC generated total fourth quarter revenue of $516.8 million, an increase of 18.4% as compared to last year. By geography, Americas revenues increased by 21.9%, Europe, Middle East and Africa revenues increased by 20.5%, and Asia Pacific revenues increased by 2.8%.

Turning to expenses. Our compensation and employee benefits under adjusted earnings increased by 21.8%. This increase was primarily driven by higher revenues, as well as an increase in newly hired brokers in new business lines, which Sean just highlighted. New brokers are typically less productive in their first year, which can temporarily contribute to a higher compensation ratio, all else equal. Non-compensation expenses under adjusted earnings increased by 9.7%, primarily driven by higher interest expense of $6 million.

Moving on to earnings. We generated strong double-digit growth across all metrics during the quarter. Our Pre-tax Adjusted Earnings were $110.8 million, a 27.3% improvement, with a 149 basis point margin expansion to 21.4%. This was our 13th consecutive quarter of year-over-year margin expansion, which reflects the gearing potential of our business. Our Post-tax Adjusted Earnings increased by 29.2% to $101.3 million, or $0.21 per share, a 31.3% improvement. Our Adjusted EBITDA was $151.6 million, a 22.3% improvement.

Turning to share count. Our fully diluted weighted average share count increased by 0.1% sequentially to 490.7 million shares. As of December 31st, our liquidity was $701.4 million compared to $524.3 million as of year-end 2022.

With that, I'd like to turn to Howard for closing remarks.

Howard Lutnick

Thank you, Jason. In 2023, we are proud we achieved record revenues and earnings and completed our corporate conversion to BGC Group.

With the historical manufactured zero interest rate environment behind us, BGC will continue to demonstrate the strength of our business and deliver growth far superior than our current trading multiple reflects.

With that, operator, we're ready to take the call for questions.

Question & Answer

Operator

Thank you. We will now conduct a question-and-answer session. One moment, while we poll for our first question.

Our first question comes from Patrick Moley with Piper Sandler. Please proceed.

Patrick Moley

Yes. Good morning. Thanks for taking my question.

I was hoping that we could just start off with FMX and where we sit today. CFTC approval is obviously a big hurdle. But in terms of the strategic partner announcement, it seems like things might be taking a little bit longer than expected. So, I was just hoping you could maybe provide some color on how those conversations have maybe evolved since the last earnings call, where they sit today and, I guess, your confidence level, Howard, in your ability to kind of get this announcement made before the first quarter call. Thanks.

Howard Lutnick

My confidence level remains off the charts. I am positive, excited, and looking forward to the opening in the summer. I know that everyone would like me to announce everything today. Then I have nothing to say tomorrow, the next day, the next day, the next day. Think about it this way. We got CFTC approval in January. We're going to open in the summer. Don't you think it would be more fun to talk about the partners in the middle, kind of like we just finished the Super Bowl…kind of between the two goalposts.

So, we are excited, we are happy. There are, of course, I-s to dot and T-s to cross, and we will be delivering when we announce – that our objective would be to deliver not only just a list of the names, but actually the full details of the transaction and how everybody owns it and how it's going to work and all those details. So, instead of expecting just a simple call from us of the names, I think you should now start to expect we will be very transparent, very detailed, and very explanatory.

Patrick Moley

All right. Thanks for that.

And then just a follow-up on revenue growth continuing to accelerate in the fourth quarter. First quarter guide implies a little bit of a slowdown, but it still, I think, is implying 10% growth and you've said that in 2024, you expect topline growth to be around 10%. So, I guess, do you still think that that's achievable this year? And then maybe as we look at the overall growth algorithm for the business and consider some of the investments that Sean mentioned that you're making, do you still think that that kind of 10% revenue growth, mid-teens earnings growth, is kind of a good way to think about things going forward? And I guess, overall, would you think that's sustainable in this higher rate environment? Thanks.

Howard Lutnick

We do. So, I think you've got it just right, which is, you know we guide what we see, and we have the numbers and that's what we've guided. But last quarter, if you look, we started at a certain percentage. We guided around 9%.

Sean Windeatt

That's right, 9%.

Howard Lutnick

And we ended up delivering 18% because the business kept accelerating through the balance of the quarter. So, when we guide 10%, it's because we're a month into the quarter, we're about 10%. It's not that exciting. We're sort of up 10%. My expectation for the year was 10%. I like the market the way it is, right? Remember, we don't really worry about whether rates are 5.25%, or 4.75%, or 5.75%. As long as they're not 1% or 0.25% or some other manufactured rate, this interest rate – global interest rate environment is very attractive.

And the only place really where it's not yet attractive is Japan. But we feel Japan is coming and so, we've made those investments, so when the Bank of Japan says that rates are now part of their life, BGC will be ready to take advantage of it. And we expect, because those expectations are in that market now, there is money to be made now. So, we think the back end of this year is when we will see returns on the investments that we've made. These are not long-term kind of things. These are going to give us returns this year.

So, we are comfortable with the 10%. We are comfortable with mid-teens earnings growth, with that gearing, and we are excited about the world that we're in and where we see it going forward. BGC is in a great place. As we've said for a long time, we have really, really big sails, okay? And for a lot of years, it just wasn't windy, okay? It is now windy, and you are all going to see the wonderful business that is BGC Group. It's a wonderful business. It will continue to deliver earnings for the long time going forward. And I think your stat there, we are very comfortable with.

Patrick Moley

All right. Thanks, Howard. I've heard your success has maybe attracted some new suitors. So, I'm going to hop back in the queue and let somebody else ask a question. Thanks.

Operator

Our next question comes from Owen Lau with Oppenheimer. Please proceed.

Owen Lau

Hi, good morning. Thank you for taking my question.

So, going back to FMX. Not sure how much you want to talk about it, but I will try. So, you launch the exchange in the summer. Could you please talk about some of the key milestones before your launch? And then on the pricing front, not exactly like going into the number, but how competitive do you expect to be? Thanks a lot.

Howard Lutnick

Okay. So, we expect to launch in the summer of 2024. With CFTC approval behind us, there is really – we do not see barriers to the launch ahead. These are just – we would call them plumbing, meaning, we have to connect to all the FCMs. It's really just process now – signing up clients. So, we would expect after we launch that the first year is really the execution of connecting the world's trading firms to us.

Now, we have a huge advantage, because in the rates business, we're already connected to virtually all of the trading firms of the world. So, our network is already connected, the system is already connected. So there – I don't know that there's ever been a firm with a better advantage in that regard of speed. Now, the FCMs, those that clear for clients, that's more new for us. So, that's a part of the process of connecting them.

Now, it does positively work out for us that the biggest clients of the world, who are our clients, also own the biggest FCMs in the world. So, all the banks who are already connected to us – fortunately for us – also own the biggest FCMs. So, the technical connection is actually quite simple. But process is process. So, our view is that the first year will be one of robust connectivity. The second year will be transactions, meaning… making sure everybody is on, everybody is playing, everybody's in the game. And then we view the third year as fundamental competition to the Chicago Mercantile Exchange.

So, step one is connecting, step two is make sure the water is flowing nicely, and step three is bring it.

Owen Lau

Got it. That's super helpful. And then on the savings side, your competitor just indicated that they have achieved 75% to 80% saving for the initial clearing members. And I remember how a couple of quarters ago, you mentioned the margin offsets could be 95% to 97% for FMX. Could you please expand on that point a little bit? How can you achieve that 95% to 97% offset? And if it still holds true for FMX? Thanks a lot.

Howard Lutnick

It does still hold true. So the concept is one where it's best to understand it by the names of them. One, what the CME does is called two-pot and what we will be doing with the LCH is called one-pot clearing. So, two-pot clearing and one-pot clearing.

See, with two-pot clearing, the CME holds lots of margin and the DTCC holds lots of margin, and they have a nice working relationship with each other, and they trust each other and they compare things to each other. And they give each other a discount because the offsetting position is in your friend… over there, held by them, and you can go only so far, right?

Whereas if you held both pots, right, you would literally net them and you would say, okay, if you're long cash and you're short futures, I mean, you only have basis risk and that's 3% risk. It's not 75% off, it's 97% off. But you can't go past 75% off when you don't hold both pieces of the puzzle. And so, the CME and the DTCC have worked nicely together to create efficiency, but they're kind of at the edge of their efficiency, and it's difficult to actually get to that 75% range. Most of our clients are… tend to be in the 50% to 60% range.

But now, you're going to see with the LCH, that we are able to get beyond that level. And basically, what the right answer to think about that is, this will be the proper first time the CME has ever actually had a real competitor who can provide margin offsets and that type of capital efficiency that they have done. So, we will be as good, but obviously, we mathematically will be superior. But the fact is, it's pure-on competition. Yes. Is it better? 97% is better than 75%. But I think you just put us toe-to-toe in the ring and we're on.

And as you can see, what FMX's US treasury business, right, has grown its market share one or two market share points sequentially every single quarter for years now, going up to 26%, last quarter was 25%, the quarter before that was 23%, the quarter before that was 21%. And these are points being taken off the Chicago Mercantile Exchange. So, the big heavyweight champ can be hit. You're watching FMX do it, and we are coming with futures launching this summer.

Owen Lau

Got it. Thanks a lot.

Operator

Thank you. We have a follow-up from Patrick Moley with Piper Sandler. Please proceed.

Patrick Moley

Yeah. Howard, I was just wondering -- I'm hoping you could update us on your capital return plans. I know last quarter, you had sort of mentioned that you might look to sell some of those easily separable electronic assets, or you'd be open to possibly selling them and using the proceeds to buy back shares. So, could you kind of just update us on your thinking there? Thanks.

Howard Lutnick

We agree that at roughly 9 times our earnings, with mid-teens growth, the best use of our capital return policy is to buy back shares. I have had, for those who on the call who don't know, a variety of shareholders who have come to us and said, if you have separable technology divisions that you could sell at prices wildly higher on a multiple than your 9 times earnings, wouldn't that be an attractive transaction for our shareholders? And for those who have heard me listen to those questions, they just watch me nod in agreement. That is a thoughtful and reasonable way to think about things.

If you have followed the company for a while, you would remember that there was lots of people asking me when I was going to sell my insurance business. And what I said was, things take time when you want to get the right price. And it took time, longer than some of our shareholders wished it would, but we got the right price and we bought back a shedload of our shares.

So, I like your question. I like that thinking. You have to find the right buyers and the right timing and the right product, that are not a key part of our future. But we have assets that are not a key part of our future. We have assets that lots of people would like to buy, and I think that is a reasonable thing for us to work on in the year 2024. Timing I can't help you with because it's not up to me, but I think that's a good question. It's a good set of thoughts. The company agrees with that thought. And if we can find the right transaction, we will execute it. We will buy back more shares, because I think it's in the best interest of our shareholders to do exactly that.

So, I liked the advice when you guys gave it, and I want to be clear that I haven't forgot.

Patrick Moley

Okay, great. And then just another one on the energy brokerage business. I've been really impressed with the growth there. I think revenues were up 42% in the fourth quarter. So, just as we look forward, I know that last year, I think you acquired Trident in the first quarter. How should we think about growth in that business going forward, given that we might be lapping some impact from some acquisitions? And then just what have you been seeing there? If you could dig into that a little bit, what are the biggest drivers? Where you see the biggest opportunity? Thanks.

Sean Windeatt

Sure. So, Patrick, we still remain – whilst we've grown significantly, we still remain slightly undersized in that business. If you stripped out our acquisition, for Q4 we'd be up 25%. So, excluding the Trident acquisition, up 25%. And we're still seeing strong growth of 25% in Q4. We bought Trident in March last year, but still opportunities both in the UK and, indeed, still in the US, with growth that you've seen has been primarily only on the oil side, but you've also got good growth in our environmental business and also in our power business. So, still, strong double-digit growth and opportunities in commodities.

Operator

Thank you. At this time, I would like to turn the floor back over to Mr. Lutnick for closing comments.

Howard Lutnick

Well, thank you for joining us today. BGC had an excellent year in 2023 and we look forward to strong performance going forward. So, thanks for spending the morning with us and we look forward to speaking to you next quarter. Thanks, everyone.

Operator

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a great day.

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