BGC Group, Inc.

Q1 2024 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

Operator

Greetings, and welcome to the BGC Group Q1 2024 Earnings Conference Call.

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

It is now my pleasure to introduce your host, Jason Chryssicas. Please go ahead.

Jason Chryssicas

Thank you, and good morning.

We issued BGC's first quarter 2024 financial results press release and the presentation summarizing these results this morning prior to the market open. 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 first quarter of 2024 with the prior year period. We'll 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 stockholder's equity, and non-controlling interest in subsidiaries. Please see today's press release for the results under generally accepted accounting principles. 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 businesses as Fenics. Fenics' offerings include Fenics Markets and Fenics Growth Platforms.

I also remind you that the information regarding our business on today's call that are 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 in this call assume no material acquisitions, buybacks, extraordinary transactions, or meaningful changes to the company's stock price.

For 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 the subsequent reports on Form 10-K, Form 10-Q, or Form 8-K.

Now, with that, I'm 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 first quarter 2024 conference call.

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

This is a great time for BGC. Today, we reported record first quarter Revenues and Adjusted Earnings, and last week we completed our FMX transaction and announced our strategic partners. These 10 major financial institutions joined us in the formation of FMX, investing $172 million at a post-money equity valuation of $667 million.

Recognizing our success in the U.S. Treasury and FX markets, their investment further validates both our technology and our vision to reshape the U.S. Interest rate markets. This extraordinary group of partners brings enormous value to FMX, far beyond this initial valuation.

With that, I'll turn the call over to Sean.

Sean Windeatt

Thanks, and good day, everyone.

Our first quarter revenues grew by 8.6% to a record $578.6 million, reflecting broad-based growth across all geographies and growth across Energy, Commodities, and Shipping, Rates, and Foreign Exchange businesses. Beginning this quarter, we renamed Energy and Commodities to Energy, Commodities, and Shipping to better reflect the integrated operations of these businesses.

Total brokerage revenues grew by 7.3% to $528 million.

Rates revenues increased by 6.3% to $175.1 million, reflecting strong growth across interest rate derivatives, government bonds and emerging market rates products.

Energy, Commodities, and Shipping revenues grew by 32.1% to $118.5 million, driven by strong double-digit volume growth across our energy complex and environmental business. This asset class has become our second largest, providing additional diversification to our client base and macro drivers.

Foreign Exchange revenues improved by 4.8% to $84 million, driven by higher volumes across emerging market currencies and options.

Credit revenues decreased by 2.2% to $87.6 million, primarily due to lower trading volumes in Asian credit, partially offset by strong European credit activity.

Equities revenues decreased by 7.7% to $62.9 million, due to lower secondary trading volumes in equity derivative products, partially offset by higher cash equity volumes, consistent with the industry-wide trends.

Data, network, and post-trade revenues improved by 13.9%, driven by broad-based revenue growth across Fenics Market Data, Lucera, our network business, and Capitalab, our post-trade business.

Turning to Fenics. In the first quarter, Fenics generated revenues of $149.3 million, a new quarterly record. These higher-margin technology-driven businesses accounted for 26% of BGC's total revenue during the period.

Fenics Markets businesses generated revenue of $127.4 million in the first quarter, an increase of 3.6%. This was driven by higher electronic Rates and Credit volumes, along with stronger Fenics Market Data subscription revenues.

Our Fenics Growth Platforms generated first-quarter revenues of $21.9 million, up 26.2%, primarily driven by FMX UST, PortfolioMatch, Lucera, and Capitalab.

As a reminder, Fenics UST is now renamed FMX UST, part of our FMX product suite following last week's transaction.

FMX UST revenues increased by over 33% on a 21% improvement in average daily volume. FMX UST grew its market share to 28% in the first quarter, up from 26% in the fourth quarter of 2023 and 21% a year ago. FMX UST continues to be the fastest-growing U.S. Treasuries platform, with its market share increasing 1 to 2 points each sequential quarter.

PortfolioMatch more than doubled its U.S. credit volumes versus a year ago. These record volumes drove revenues 87% higher. PortfolioMatch continues to increase its market share in this rapidly growing segment of the market.

Lucera grew by 36%, primarily driven by new clients and expansion of existing client agreements. Lucera's subscription-based revenues have consistently grown by strong double digits.

Capitalab generated revenue growth of 40%, driven by higher interest rate compression activity.

Turning to our outlook. I'm pleased to provide the following guidance for the second quarter of 2024.

We expect to generate total revenue of between $520 million and $570 million, as compared to $493.1 million in the second quarter of 2023.

We anticipate pre-tax Adjusted earnings to be in the range of $120 to $130 million versus $105.5 million last year.

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

Jason Hauf

Thank you, Sean, and hello, everyone.

BGC generated total first-quarter revenue of $578.6 million, an increase of 8.6% as compared to last year. We saw revenue growth across all geographies. Europe, Middle East, and Africa revenues increased by 11.5%. America's revenues increased by 6.2%, and Asia Pacific revenues increased by 3.5%.

Turning to expenses. Our compensation and employee benefits under Adjusted Earnings increased by 9%. This increase was primarily driven by higher revenues, as well as an increase in newly hired brokers and new business lines. Non-compensation expenses under Adjusted Earnings increased by 7.7%, primarily driven by higher interest expense.

Moving on to earnings. Profitability increased across all earnings metrics during the quarter, including GAAP-net income for fully diluted shares, which improved by 92.2%.

Our pre-tax Adjusted Earnings grew by 8.6% to a record $135.4 million, with a margin of 23.4%, its 14th consecutive quarter of year-over-year margin expansion.

Post-tax Adjusted Earnings increased by 6.6% to $123.2 million, or $0.25 per share, an 8.7% improvement.

Going forward, we expect our traditionally strong gearing to continue. This is reflected in our second-quarter guidance, where our revenue midpoint is expected to be up 10.5%, and our pre-tax Adjusted Earnings midpoint is expected to be up 18.4%.

Our first quarter Adjusted EBITDA was $208.4 million, a 37.9% improvement.

Turning to share count. Our fully diluted weighted average share count was 495 million shares during the first quarter, a 1.2% decrease compared to the first quarter of 2023. We expect our fully diluted weighted average share count to remain approximately flat for the full year 2024, barring any extraordinary transactions.

As of March 31, our Liquidity was $615.7 million, compared with $701.4 million as of year-end 2023. Cash uses are typically larger in the first half of the year as we pay bonuses and taxes.

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

Howard Lutnick

Thank you, Jason.

The United States' interest rate markets are the largest in the world. We have built the fastest-growing U.S. Treasury platform, and now with the support of our partners, FMX is the only competitor to the CME.

Following our best quarter on record and reflecting our strong balance sheet and future growth prospects, I'm pleased to announce that our Board of Directors has approved an increase in our quarterly dividend to $0.02 per share.

With that operator, we're happy to open the call for questions.

Question & Answer

Operator

Thank you. We will now be conducting a question-and-answer session. Your first question comes from Patrick Moley with Piper Sandler. Please go ahead.

Patrick Moley

Yes. Good morning. Thanks for taking the question.

I just wanted to start on FMX and dive a little deeper into a few of the items there.

First, can you talk about the pricing structure and the incentives that are being offered to these partners and how that may evolve over time?

And then second, can you help us just understand and maybe even quantify those volume targets that need to be hit for the investors to retain that 10% ownership stake? Is that company specific? Is that based on the group? Any color there would be great.

Howard Lutnick

Sure. So, the 10 partners have volume targets related to their equity, meaning they have growing volume targets across the businesses throughout the whole ecosystem of the business. So that's Treasuries, Foreign Exchange, and Futures.

Obviously, some of the partners, for instance, will be more focused on SOFR futures, some more on Treasury futures, some more on Treasury cash. And so those were individually crafted to be more attuned to the type of trading that that particular firm does.

The FCMs, what is spectacular about those partners is many of them have the greatest FCMs in the business, and those FCMs will be connecting. And really for them, they can't really drive their client business in particular, but what they can do is, they can connect their clients and have that be a seamless connection. So that is also part of the transaction is that they connect across all of their areas of the firms.

They have subscription arrangements which grow over time, meaning the revenues will continue to grow, but they do not have unit economics in the ecosystem, meaning that those partners can drive business and drive volume through the ecosystem without marginal cost.

And that is a fundamental part of the company's view is that we think breaking unit economics and driving a subscription-based pricing model is something that we are open-minded to, to other clients as well. So that is a model that we like that we embrace, and that we look forward to driving across the ecosystem of FMX, both for our partners and for other companies as well.

Patrick Moley

Great. Thanks.

And then just on the fixed pricing structure, I guess just overall, what impact do you expect the formation of FMX to have on BGC's top line in the short term?

Do you expect there to be a revenue step-up just from the fact that these partners are switching from variable plans to fixed pricing plans?

And then I guess just adding onto that, from a market share standpoint, with these volume incentives, how do you expect the CLOB market share, and maybe even your share of volumes in FX to evolve just from the formation of this over the next quarter, call it two quarters or so?

Howard Lutnick

So, question number one, revenues will grow because their subscription price exceeds the amount of revenue we currently receive. So, number one, our revenues will grow.

Number two, across our ecosystem, for example, our Foreign Exchange business. We have an excellent platform in Foreign Exchange that has enormous scale to grow.

And now with these partners connecting to it, for those who haven't connected to it and using it, I think we will demonstrably grow our Foreign Exchange business, which will both add market share as well as to really create a wonderful marketplace for others to transact business at very attractive price. So, we are excited about our Foreign Exchange platform.

Obviously, our Treasury platform was growing 1% or 2% per sequential quarter, and that was without these partners being owners. Now with them being owners, we think over the next two and three quarters you're going to see substantial growth in our Treasury platform, both in terms of volume, average daily volume, market share, and revenues as well across the board.

And then futures, as we've said, we plan to open in September. We are not expecting to charge a material amount of money for our futures business. Our expectation in the first year is to charge a very low to no price so people can connect, and people can trade, and people can grow their volume and understand the benefits of this system, the technology, its speed.

And so, our futures business is not where we expect in the first year to be gaining material revenues. However, our Foreign Exchange business and U.S. Treasury businesses should be growing their revenues nicely across the year.

Patrick Moley

Okay. And then just on the futures piece, I think in the past you've said that it might take a year or two before you would expect to meaningfully start growing the market share in futures and taking share from CME.

Can you just kind of update us on how you're thinking about the timeline until you kind of get everyone to the starting line, and have the ability to take share and then how you would expect that to maybe evolve once you get everyone there?

Howard Lutnick

Sure. There's depth and breadth conversations.

So, with our partners, we have sufficient capacity to light up our markets when we open our futures. I've used the term like a Christmas tree. I would expect our futures markets to have wonderful pricing because when you have 10 of the greatest trading firms in the world as your partner, they have more than sufficient capacity to transact in healthy volumes with the marketplace.

But I do understand that it takes time to connect the global infrastructure of trading firms across the world to our new futures exchange. So, we think that will take, could well take a year.

And so, while we're starting now, we know there are different firms going to be coming on all across the timeline between now and the end of the year. That's just going to happen. We hope many of them will happen by the time we open in September.

But it is a reasonable view that some of the big FCMs will be coming on and their clients will be coming on through the end of the year. And we are aware of it. We are working on it, and we expect it. And so, we think the first year will be one of adding breadth, having everybody connect, making sure the model is full, where the playing field is full of all the players.

So, we hope a year from when we open, we will have all the players on the playing field and then it will truly begin. So, I would say year two would be the beginning where we have all the players on the field and then we begin.

And then year three, when everybody has all of the ecosystem completely connected, completely available, totally knowledgeable about the benefits of our technology, the speed, the capacity, the atomic nature where you can trade A against B in, built into the software, into the platform, something that the CME can't really do because they bought BrokerTec, and it's separate from… their cash business is separate from their futures business.

We have the benefits, of course margining. SOFR futures against interest rate swaps.

I think you're going to really see tremendous competition for market share. So, it's a process. That process takes time. You got to trust the process. But I think early on people will be surprised by the quality of our markets.

And as I said, kind of will remind me of the holidays.

Patrick Moley

Okay. And then just switching to the quarter and the guidance.

I think in the second quarter, the midpoint of the guidance range implies a little bit more margin expansion than the street was expecting.

Last quarter, you'd mentioned that you'd made some investments that you didn't really expect to bear fruit until the second half of this year. Is that margin expansion in the second quarter? Is that any indication that you're starting to see kind of those benefits come through earlier than expected?

Or is that maybe just driven by some of the lower expenses from that formation of FMX, and kind of the capital that's freed up or expenses that, that's kind of deterred?

Howard Lutnick

I think you will see from here on out, a more clear view of the Fenics business and how that adds margin to our company.

We have been big investors in first our U.S. Treasury platform, then our FMX Futures platform. And when you're investing big like that, when you look at us holistically, what you haven't seen is you haven't seen the benefits of our higher margin Fenics business flow through the bottom line, because we've made big investments across our scale.

You've seen us invest in Lucera, which is now winning, and Capitalab, which is now winning, and a whole variety of our businesses. PortfolioMatch, which is now winning.

So, all of those things reduced our margin over the many years that you've seen past. The lion's share of those investments are now behind us. And now we are in harvesting mode. We're going to start harvesting FMX, even though futures has not open yet.

Just our growth in Treasuries and our growth in Foreign Exchange will more than satisfy, I think, in our view, the expense of our futures exchange.

We're now in a really wonderful position where you will start to see the benefits of our Fenics platform and those margins, right?

And I think so from here on out, starting the second quarter, our margins are going to be healthy. They're going to have expanded from what we've seen in the past, and I think that will continue going forward.

So, it's both things are moving more quickly, things are moving well, and the company has started to fire on all cylinders.

Patrick Moley

All right. And just shifting to capital allocation and the press release, I think you said that just the tens of millions of dollars of working capital that it was going to free up would be available for...you mentioned share repurchases, increasing the dividend, which you obviously did this quarter, and then investing for growth.

So, can you just kind of help us understand how you'd prioritize those three? And then I have one other one on capital allocation, but I'll leave it there.

Howard Lutnick

All right. So, the dividend is pretty easy. A penny is $20 million a year, so that’s kind of black and white. So, we are going to return an extra penny a share now.

We like buying back our shares. So, Jason said we plan to keep it, all other things constant. We plan to keep our shares flat. They've been flat, I think they were down 1% year over year. We've held it there just below 500, and that's our expectation. It does not mean that we won't beneficially buy back shares.

As we see, we've said this before, if one of our shareholders decides to sell, we encourage you to call us because then we can do a block transaction and buy them, things like that. So, I mean, we're open-minded to do things like that.

We are seeing opportunities to invest in our business. The business is growing. Others don't have the technology. They don't have the scale, and we are seeing that opportunity, and we're going to continue to take advantage of those.

They tend to be comparatively small, generally, comparatively small. But you never know, and those opportunities are in front of us. And if we can buy things at the right price and drive them through our ecosystem, we're going to do that.

We have the technology, we have the scale, we have Fenics, we have Lucera. We have a lot of tools to make money. And as I said, the market is growing. Our market share is growing compared to everybody else. We feel really good about where we are.

We feel really excited about validation that is clear from our partners joining us in FMX. That is the defining characterization of the transaction, is that these partners appreciate our technology. They appreciate its capacity. They know it could compete in the world. They are certain of it. They've seen it in U.S. Treasuries. This is not something to think about in the future, right? This technology just took two points market share this quarter past.

And I hope we don't sound like we're backing away from our view of our growth on this call. We continue to feel good and those growth of one or two points sequentially per quarter were before we had partners. And so, I think those partners will enhance the speed of our growth.

And we are really excited about our opportunities, both to invest our capital. We're going to continue to buy back shares, an expectation of raising our dividend should be something.

It's going to be constrained because we like buying our shares back. But we felt, we had said it was one of the tools to use to return capital to shareholders, $20 million for a company that just said we're going to earn $125 million in the quarter coming in midpoint of our guidance. It's pretty constrained.

Patrick Moley

Great. And then just -- you're talking about seeing success in some of these Fenics businesses. I think in the past you had said that you could potentially be open to maybe looking to sell some of the easily separable businesses within Fenics and giving that capital back to shareholders.

Can you talk about, or any update there on your thoughts around potential sale of any of those assets, and what you would use with the proceeds?

Howard Lutnick

Look, we are open-minded as a public company that trades oddly with our growth rate of top-line revenue of 10% growth and now bottom-line profits of 18%.

We remain surprised being part of the S&P 600 that we're so – We trade at such a very attractive price as compared to the index which at large trades at about 15x earnings.

So, we have lots of assets and if I wouldn't say they're for sale, that would be wrong. I would say that the exchanges of the world know who we are, and sometimes they really like some of our products, and if they come and talk to us.

And the multiples are like we've said in the past, 12x revenues kind of things like that. We're open-minded.

And so I wouldn't put your money on for certain this is what we're doing. In the past when I've said for certain this is what I'm doing, we've said it and then we've done it, right?

We said we were going to sell insurance. We said we would announce our partners and FMX and the way we did things like that.

So, nothing is for sale, okay because it's growing rapidly within our business.

However, if the exchanges want to buy something from us and pay us a healthy price. and we can then go out and buy our own shares back at a very attractive spread for our shareholders.

I think that we are absolutely open-minded. So not for sale, no, but open-minded, for sure.

Patrick Moley

Okay, Great. And then just last question. Wanted to just know, what do you expect the run rate for stock-based comp to be going forward?

I think in the first quarter, it was annualizing out to about 8% dilution. So, is that a run rate we should expect, or would you expect that to kind of come down over time?

And how much noise if at all, is still in that number from the corporate conversion?

Sean Windeatt

Patrick, I'd expect that. First, I'd expect it to come down, Q1 is the quarter that we paid bonuses. A significant amount of hires that were in that period. So, I would expect it to come down from the level that it was in Q1.

The exact number, probably a couple of points from there would be my view, but yes certainly Q1 is when we pay bonuses.

Patrick Moley

Okay. So, like 5% is a good run rate going forward?

Howard Lutnick

Yes, pretty close to that, it's fine.

Patrick Moley

Okay. Great. All right, guys. Thanks so much. That's it for me.

Operator

There are no further questions. I would like to turn the floor over to Mr. Lutnick for closing remarks.

Howard Lutnick

Well, thank you very much for joining us.

We are excited about our future. We're excited about FMX, and finally opening our futures exchange in September. The market, we're excited that we will be able to present, and you'll see the margin growth from Fenics across the business. BGC just feels really good, and we look forward to speaking to you next quarter as we update you on our success.

Thank you, everybody.

Operator

This concludes today's teleconference. You may disconnect your lines at this time and thank you for your participation.

About BGC Group, Inc.

BGC Group, Inc. (Nasdaq: BGC) is a leading global marketplace, data, and financial technology services company for a broad range of products, including fixed income, foreign exchange, energy, commodities, shipping, equities, and now includes the FMX Futures Exchange. BGC's clients are many of the world's largest banks, broker-dealers, investment banks, trading firms, hedge funds, governments, corporations, and investment firms.

BGC and leading global investment banks and market making firms have partnered to create FMX, part of the BGC Group of companies, which includes a U.S. interest rate futures exchange, spot foreign exchange platform and the world's fastest growing U.S. cash treasuries platform.

For more information about BGC, please visit www.bgcg.com.

Discussion of Forward-Looking Statements about BGC

Statements in this document regarding BGC that are not historical facts are "forward-looking statements" that involve risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements. These include statements about the Company's business, results, financial position, liquidity, and outlook, which may constitute forward-looking statements and are subject to the risk that the actual impact may differ, possibly materially, from what is currently expected. Except as required by law, BGC undertakes no obligation to update any forward-looking statements. 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 Securities and Exchange Commission ("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 or Form 8-K.

Media Contact:

Erica Chase

+1 212-610-2419

Investor Contact:

Jason Chryssicas

+1 212-610-2426