



BGC Group, Inc.
Q3 2024
EARNINGS CALL
TRANSCRIPT





Company Participants

Howard Lutnick, Chairman and Chief Executive Officer

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

Jason 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 Incorporated's Third Quarter 2024 Earnings Call. This time, all participants are in a listen-only mode. A question-and-answer session will follow today's formal presentation. (Operator Instructions) As a reminder, this conference is being recorded.

It's now my pleasure to introduce Jason Chryssicas, Head of Investor Relations. Mr. Chryssicas, you may now begin.

Jason Chryssicas

Thank you, and hello, everyone.

This morning, we issued BGC's third quarter 2024 financial results press release and earnings presentation. You can find these at ir.bgcg.com.

Except as otherwise specified, any historical results provided on today's call compare only the third quarter of 2024 with the prior year period.

We will be referring to our results on a non-GAAP basis, which include the terms Adjusted Earnings and Adjusted EBITDA. Please refer to today's press release, investor presentation and supplemental tables on our website, for additional details on our quarterly results, and for complete and updated definitions of any non-GAAP terms, reconciliations of these items to corresponding GAAP results and how and when management uses them.

The outlook discussed today assumes no material acquisitions or meaningful changes in our stock price. Our expectations are subject to change based on various macroeconomic, social, political and other factors. None of our targets or goals beyond 2024 should be considered formal guidance.

Also, I remind you that information on this call contains forward-looking statements, including without limitation, statements concerning our economic outlook and business. Such statements are subject to risks and uncertainties, which could cause actual results to differ from expectations.



Except as required by law, we undertake no obligation to update any forward-looking statements. For a complete discussion of the risks and other factors that may impact these forward-looking statements. See our SEC filings, including but not limited to the risk factors and disclosures regarding forward-looking information in our most recent SEC filings.

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

Howard Lutnick

Thank you, Jason. Good morning, and welcome to our third quarter 2024 conference call.

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

We delivered record third-quarter revenues of \$561 million, up 16% compared to last year. Our strong performance reflected growth across every asset class and region. We drove our pretax adjusted earnings up more than 24%.

Earlier this month, we agreed to acquire OTC Global Holdings, the largest independent energy and commodities broker, and we closed our acquisition of Sage Energy Partners. We expect both transactions to be immediately accretive and together will add more than \$450 million in annual revenues.

FMX continues to outperform its peers, generating record volumes across our U.S. Treasury and FX platforms. FMX Futures Exchange, which launched September 23, provides clients with much-needed innovation, superior pricing, and dramatically improved capital efficiencies. We expect to connect an additional 5 to 10 of the largest FCMs over the next couple of quarters.

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

Sean Windeatt

Thanks, and good day, everyone.

Our third-quarter revenues grew by 16.2% to \$561.1 million, representing record third-quarter revenues and reflecting strong growth across every asset class and region.

Total brokerage revenues grew by 15.1% to \$500.6 million.

Rates revenues increased by 19.6% to \$174.3 million, reflecting higher volumes across the asset class.

ECS revenues grew by 21.3% to \$112.9 million, driven by strong organic growth across the energy complex and BGC's leading environmental business.

As Howard mentioned earlier, we're excited about what the OTC and Sage acquisitions will bring to our ECS business. OTC, the world's largest independent energy and commodities broker, will transform our



offering in oil and shipping, allowing us for the first time to broker the entire barrel. Sage seamlessly aligns with our business, further strengthening our leading environmental franchise.

Foreign Exchange revenues improved by 15.4% to \$92.1 million, driven by emerging markets products, and higher G10 options volumes.

Credit revenues increased by 6.7% to \$68 million, led by Fenics PortfolioMatch and higher emerging market and European credit volumes.

Equities revenues grew by 1.3% to \$53.3 million, driven by U.S. and European equity derivatives volumes, partially offset by lower Asian equity derivative activity.

Data, Network, and Post-trade revenues improved by 17.5% to \$32.7 million, driven by strong subscription-based revenue growth across Fenics Market Data and Lucera.

Turning to Fenics.

In the third quarter, Fenics revenues improved by 13.3% to \$142.1 million.

Fenics Markets produced revenues of \$116.8 million, an increase of 9.2%. This growth was driven by higher electronic volumes across Rates and Foreign Exchange.

Our Fenics Growth Platforms generated revenues of \$25.3 million, up 37.3% driven by FMX, PortfolioMatch, and Lucera.

FMX UST generated record daily average volume of \$53 billion for the third quarter, up 40% compared to last year. This translated to 29.4% market share for the third quarter compared to 25.3% a year ago.

FMX FX average daily volumes improved more than 38% compared to last year on record ADV of more than \$9 billion. FMX FX continues to outperform and grow its market share in the enormous global foreign exchange market.

FMX Futures Exchange launched on September 23, trading SOFR futures, the largest notional futures contract in the world. The exchange launched with five FCMs, Goldman Sachs, JP Morgan, Marex, RBC, and Wells Fargo. We expect to connect an additional 5 to 10 of the largest FCMs for the launch of U.S. Treasury futures in the first quarter of 2025.

PortfolioMatch U.S. credit volumes increased more than 150% and its European volumes were up over nine-fold compared to last year.

Lucera, our network business providing critical real-time trading infrastructure to the capital markets, grew its revenue by over 34%. Lucera is leveraging its strength in the FX markets and expanding across the Rates landscape.

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



We expect to generate total revenue of between \$545 million and \$595 million as compared to \$516.8 million in the fourth quarter of 2023, which at the midpoint of our guidance would represent over 11% revenue growth for the full year 2024.

We anticipate pre-tax adjusted earnings to be in the range of \$122 million to \$138 million, versus \$110.8 million last year, which at the midpoint of guidance would represent around 17% earnings growth for the full year 2024.

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

Jason Hauf

Thank you, Sean, and hello, everyone.

BGC generated third-quarter revenue of \$561.1 million, reflecting growth across all geographies. Americas revenues increased by 19%, Europe, Middle East, and Africa revenues increased by 16.5% and Asia-Pacific revenues increased by 8.3%.

Turning to expenses.

Compensation and employee benefits under GAAP and for Adjusted Earnings increased by 16.4% and 16.3% respectively, primarily due to higher commissionable revenues during the period.

Non-compensation expenses under GAAP and for Adjusted Earnings increased by 17.5% and 11.5%, respectively, largely driven by higher interest expenses, which was more than offset by higher interest income.

Moving on to earnings.

Our pre-tax Adjusted Earnings grew by 24.4% to \$126.7 million.

Post-tax Adjusted Earnings increased by 34.5% to \$126.6 million and post-tax Adjusted Earnings per share improved by 36.8% to \$0.26 per share.

Our third quarter Adjusted EBITDA was \$151.4 million, an 11.4% improvement.

Turning to share count.

Our fully diluted weighted average share count for Adjusted Earnings was 494.8 million during the third quarter, a 0.4% decrease compared to the second quarter of 2024.

BGC continues to expect its fully diluted weighted-average share count to remain approximately flat for the full year 2024.

As of September 30, our liquidity was \$772.5 million compared with \$701.4 million as of year-end 2023.

With that, operator, we would like to turn...open the call for questions.



Question & Answer

Operator

Thank you. At this time, we'll be conducting a question-and-answer session.

(Operator Instructions) Thank you. Our first question is from the line of Patrick Moley with Piper Sandler. Please proceed with your questions.

Patrick Moley

Yeah, good morning, Howard and team. How you guys doing?

Howard Lutnick

Good morning, Patrick.

Patrick Moley

So, I wanted to just start-off with a question on FMX. It's been a little over a month now since you launched SOFR contracts. So, Howard, I was hoping we could just maybe get a state of the union from you on how satisfied you've been with the launch?

And then on the additional 5 to 10 of the largest FCMs that you plan to connect over the next couple of quarters, I'm assuming a few of those are strategic investors. So just wondering maybe what the hold up is and what – if there's any delays in getting them connected, what's kind of driving that? Thanks.

Howard Lutnick

Sure. So, we're just going to focus for a little bit on FMX futures. So, we said we would open with between three and five FCMs and we opened with five FCMs, which we listed today.

We do expect over the next two quarters to hopefully have all of the balance of the partners connected. That would be our objective, plus a few others.

Many FCMs just didn't start the process of connecting until after it was fully approved, and after it was announced and after when it was opening, it's just a process, which we're totally – we were totally aware of.

And that's why if you remember, which I've said all along, I said the first year is to get all the players on the field, right? That would mean all the FCMs signed up. So, our expectation was it would take us the first full year to get all the FCMs signed up. There are 50 FCMs.

Obviously, we're focused on the largest ones, but in the top 20, of course, but we hope by the end of the first year, we would have all the FCMs signed up. Then the end of the second year, we would have



all the clients of all the FCMs signed up and then we'd be ready in year three to bring full on competition to the CME.

So, we opened with five, which was the high-end of what we expected. So, I was very happy. But by definition, we only have five FCMs, meaning the only people who can do business with us are the clients of those first five. We expect to add 5 to 10 of them over the next couple of quarters. And most of them, if not all of them, we should have most, not all of the partners signed up.

As they sign up, often what comes with it is more treasury and foreign exchange trading as well. So, you get a nice additional benefit of bump up in the other assets of FMX, which is our U.S. Treasury platform and our foreign exchange platform. So, I think that that comes with that as they do the added connectivity, we do have an expectation that those market share points and volumes will bump up as well.

So, I think it's going slightly better than expected, in that we thought we would have 3 to 5 and we had 5. I'm not going to overdo it. It's perfectly fine. They're doing business. There's open interest every day. There's a whole variety of teething pains of trying to make it smoother, simpler, easier for the FCMs and the LCH. That's a process that's always ongoing. I would expect that much of that to sort its way out through the end of this year.

And I think as we go into next year, I think all these sort of new things will be sorted out nicely and we'll be in excellent shape going forward.

Patrick Moley

Okay. Just one other one on FMX before we move on to the rest of the business. It looked like the CLOB market share declined sequentially in the third quarter for I think, the first time ever. So just curious what the driver of that share loss was and then how we should think about market share trajectory from here in that business?

Howard Lutnick

Sure. So, there was – last quarter, we rounded up, and this quarter, so that's why I gave you the 29.4% to show you that and the last quarter was like 29 point some other number, like 29.8% or something like that. So, one was a slight roundup, and one was a slight round down, but it's irrelevantly similar.

What happened in the quarter was there was a spike in volume and there was a dramatic spike in volume between professional trading firms trading with each other on the CME.

And as you remember, that's not business that we focus on. So, volatility was very high and the trading between professional trading firms, which is not something we focus on, made the market share slightly large, you know the pie was larger. And so that was the only change. I would expect our march higher on market share for our U.S. Treasury business has not changed.

Our outlook has not changed. And I think you would expect it to go forward in a very positive way. As I said, as some of the partners come on with their FCMs, they're going to come on with more of their



trading pods within the firm. And I think we have the expectation of really nice bumps in our treasury business going forward. And we have line-of-sight to it with clients. We know where it's coming from, and I think we're very optimistic and positive.

Patrick Moley

Okay. Understood. And then shifting gears to the Energy business and the Sage and OTC Global Holdings acquisitions. Pretty transformational, you're going to have a lot more exposure to the Energy sector.

So, when we just think about the overall company, how should we think about what this means for the margin outlook and kind of the growth trajectory of the business going forward. Why now – why is now a good time you think to make acquisitions like this?

And then getting a little bit more specific, is there any way you could help us quantify how accretive you expect these acquisitions to be to your earnings? And then maybe if you could give us like a breakout of that \$450 million in revenues, how much comes from Sage versus OTC that would be very helpful as well. Thanks.

Sean Windeatt

Well, a lot of things, okay. So, I think in terms of the overall acquisitions, look, we've said for a number of years where we're undersized in America. Now you've seen significant growth in America. We said we were undersized in energy and commodities and shipping and now you've seen us – you've seen us grow there and what these two will do that that continues that trajectory of growth in this marketplace or in this particular sector where we were not as large.

So, it's a huge market, it's a huge place very – with a big diversified group of participants and now and now this will make us one of the main players. So – and as we said, it's – there's two acquisitions we've done from Sage, which links in seamlessly with our existing business and plug-and-play with our existing business, in particular our environmental business. And then, of course, you've got – you've got OTC. We were – we were strong in – stronger in the U.S., not as strong in Europe.

This will strengthen us in the U.S., give us the complete picture, and also in Europe make us one of the strongest in oil overall. So, for us, part of our strategy, and we're very excited by both of those acquisitions.

From an – from a revenue and a – and we said today the revenues that once obviously both closed will – we estimate will get us annualized revenues of in excess of \$450 million, and whilst we haven't given an estimate today on EPS, what we've said is both of those transactions will be immediately accretive.

We've already closed on Sage and as we said in our prepared notes, we expect to close in OTC towards the end of Q1. And both will be immediately accretive on EPS.



Patrick Moley

Okay. And then on the size breakout, I guess this would tie into a question about the revenue guide for the fourth quarter. Of that 10% year-over-year growth, how much of that is going to come from these acquisitions? I guess, how much is organic versus non-organic?

And then going forward for these acquisitions as we build them into our models, I mean, should we just – is it fair to model just kind of the existing margins of the business and assume it's accretive, but you're still kind of in that low 20% range in the energy business as well. Any color there would be helpful.

Sean Windeatt

Okay. So, in Q4, it's – so the fraction overly 10% that we have is, between 1% and 2% is acquisition, the balance still being between 8% and 9% is organic, and the balance acquisition, just 1% to 2%.

And then from a going forward from a margin perspective, I think once OTC closes, I think you're, with a large acquisition, immediately accretive, but with any big acquisition, slightly lower margin to start with, whilst you integrate that business and then and then getting to margins, as you say around the 20% level sounds pretty good for me.

Patrick Moley

Okay. And then just, I guess, if you could maybe just share...once we get past the Sage or the OTC acquisition, any kind of updated thoughts on capital allocation priorities? And are there any potential businesses within Fenics that you could possibly look to divest? Just updated thoughts there would be great.

Howard Lutnick

So, you're right in that when we've made accretive acquisitions that will be part of our capital allocation. I think we did a study of what would be the best use of our capital, and I think it's clear that these acquisitions for our shareholder value were superior and so we made those acquisitions. I think they're good prices and they're great businesses for us to grow and grow the profitability and our EPS.

So, I think that will, it will obviously reduce the...our share repurchasing period during the period of time that we're putting aside money to pay for these acquisitions. And so, you should expect that. But we've done that calculation on the share count and all the rest and it's mature, it's accretive. So that's beneficial to our shareholders.

Thereafter, turning to your point, we do have some tech assets, electronic assets that are growing very, very nicely and that we think there a few of them that might attract significant attention from others who would like to buy them at a – at multiples and multiples and multiples higher than what we trade at. And so that would be also accretive. We are open-minded to that for sure, we said so. And those kind of things are just timing-based. We're open-minded. We have suitors who have come and chatted with us. We are open-minded about it.



And over time, I would think you will see us divest some businesses. I'm not talking about giant businesses, but I'm talking about small businesses that we have that will prove our point that our electronic assets are worth so much more, probably more than that, more than the market cap of the company at these kind of multiples. So, I think that's – we expect that over the next year, we would expect something like that to close.

Operator

Thank you. (Operator Instructions) We have a follow-up from the line of Patrick Moley with Piper Sandler. Please proceed with your questions.

Howard Lutnick

It's just us today, Patrick. It's just us today.

Patrick Moley

Yeah. I think I was on-mute, and he threw me – I got thrown back in the queue. So, I wanted to go back to the organic growth outlook. Howard, I know in the past you've said that you expect that you can generate around 10% revenue growth going forward. Is that still achievable in your mind?

And in the fourth quarter, it looks like you might dip below that from an organic standpoint. Is that just, you have a tough comp, so you're maybe temporarily dipping below that? How should we think about that in the fourth quarter?

Howard Lutnick

I think our year we said from the beginning of the year that we expected revenue growth of above 10% and we are guiding revenue growth to 11% for the year. Obviously, as you saw this quarter, the company focuses on its maximum performance, just delivered 16%.

We don't see anything stepping back, but I don't know how the election will play out. I don't know how the...after the election stuff will play out. I don't know how December will play out versus last year, which was a blowout December.

So, I think we're just being reasonable with our expectations, but we are very comfortable with organic growth at 10%. Nothing has changed that at all.

Patrick Moley

And just last one for me. Any update on quarter-to-date trends? And once we get on the other side of the election, how do you expect maybe volumes and just overall activity levels in your business to kind of trend into the end of the year?

Howard Lutnick

All right. So, by guiding revs up more than – slightly more than 10%, we sort of tell you that our expectation is things are going to remain lovely at BGC.



Patrick Moley

All right. All right. Thanks a lot, Howard.

Operator

Mr. Lutnick, I'd like to turn the floor back to you for closing comments.

Howard Lutnick

Thank you. So, we continue to deliver strong top and bottom-line growth.

Our FMX futures exchange, which opened a month ago, we're actively onboarding clients, and we feel really good about it.

Our – we expect our growth trajectory and market share in SOFR futures to far exceed what we experienced with our FMX U.S. Treasury business, and you know where that is now. So, we expect very positive things from our SOFR futures business.

And we're happy to welcome Sage Energy Partners to BGC and we look forward to welcoming OTC in the new year.

Things, as I said, are feeling very, very good for BGC and we look forward to seeing you next quarter.

Thanks, everybody. I appreciate you joining us this morning.



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