FLOW TRADERS

Q4 2024 Results

Thursday, 13th February 2025

Transcript produced by Global Lingo
London – 020 7870 7100
www.global-lingo.com

Q4 2024 Results

Operator: Hello and welcome to the Flow Trader's Fourth Quarter 2024 Results Call. Please note, this conference is being recorded and for the duration of the call, your lines will be listen-only. However, you will have the opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you will be connected to an operator.

I will now hand you over to your host, Eric Pan, HR Investor Relations, to begin today's conference. Please go ahead.

Eric Pan: Good morning, and thank you for joining Flow Trader's Fourth Quarter 2024 Results call. As you have will – as you will have no doubt already seen, we released our results first thing this morning. I am joined here on the call by FlowTrader's CEO, Mike Kuehnel, as well as Global Co-Head of Trading, Alex Keift, who will run through this results presentation. Afterwards, we will be happy to take any questions you have.

Before we begin, let me draw your attention to the disclaimer on page two. Please be advised that if you continue to listen to this presentation, you are bound by this disclaimer. Also, please note that the results we will discuss in this presentation are unaudited.

With the formalities out of the way, I would now like to hand over to Mike for his opening remarks.

Mike Kuehnel: Thank you very much, Eric.

Good morning, everyone, and thank you for dialling in. The fourth quarter of 2024 as a whole saw increased activity in the market trading environment, while volatility levels in the quarter were also elevated.

Flow Trader's ETP value traded tracked in line with the market as it increased by 13% in the quarter compared to the same period last year and by 16% when compared to last quarter. Total value traded increased by 14% year-on-year and 6% quarter-on-quarter. For the year, Flow Trader's ETP value traded increased by 5% when compared to '23, while total value traded increased by 12%.

Flow Trader's value traded across each of our asset classes in the fourth quarter and for the year saw corresponding movements that were largely in line with the market, with crypto seeing the largest increase both year-on-year and compared to last quarter. Fixed income value traded saw a decline compared to a year ago as we allocated our trading capital towards other asset classes with more attractive opportunities. Given increased activity in the quarter across Asia, Europe and digital assets, we achieved the best fourth quarter in company history with a net trading income of €153.8 million and Other income of €5.1 million for total income of €159 million, which is a 114% increase compared to the same period a year ago.

As a reminder, Other income reflects the unrealised gains and losses of our strategic investments portfolio. With that – within that, our digital assets investments continue to make a positive contribution, as several projects where we were early investors saw additional uplift during the quarter. However, it is worth highlighting that given the volatility inherent with digital assets investments, the unrealised gains we saw in 2024 may potentially turn into unrealised losses in future periods should the market reverse and return some of the recent gains.

For 2024, we recorded the second most successful year in the company's 20-year history with €467.8 million of net trading income, €11.5 million of Other income and €479.3 million of total income, which is second only to the COVID disruption year of 2020. Fixed operating expenses in the fourth quarter was €45.3 million, flat compared to the 3rd quarter and €179.1 million for the year, a 3% increase year-on-year and in line with our guidance. Given our relatively fixed cost base and high operating leverage, we generated an EBITDA of €82.1 million in the quarter, an almost seven-fold increase compared to the same period last year and a 52% margin. For the year, we generated an EBITDA of €214.9 million and a more than three-fold improvement compared to '23 and a 45% margin.

As a reminder, our variable employee compensation is set at 32.5% of operating results, which aligns employee incentives with those of shareholders.

Net profit for the quarter increased to €63.2 million with a basic EPS of €1.47, an almost ten-fold increase compared to the same period last year. Net profit for the year increased to €159.5 million with a basic EPS of €3.69, a more than four-fold increase compared to 2023 and also the second most successful year in Flow Trader's 20-year history on a per-share basis.

The strong results this quarter and for the full-year serve as further validation of our growth and diversification strategy and the trading capital expansion plan that was announced in July of last year. The bank loan and strong profit generation throughout the year immediately helped to increase our capacity to capture opportunities that arose over the course of the year.

I will now hand it over to Alex Kieft, our Global Co-Head of Trading, to review recent ETP market dynamics on the next slide.

Alex Kieft: Thanks, Mike, and good morning, everyone.

As shown at the top left-hand slide – top left-hand side of this slide, ETP market value traded increased by 13% in the fourth quarter compared to the same period a year ago and by 12% compared to the third quarter. For the year, ETP value traded increased by 5% compared to 2023.

Implied volatility in the fourth quarter, as represented by the VIX, increased by 12% when compared to the same period a year ago and was relatively flat compared to the third quarter of this year. For the year, average implied volatility decreased by 9% compared to 2023. Total ETP assets under management increased by 6% in the fourth quarter and 29% year-on-year to almost €14 trillion, given record fund inflows into ETPs, as well as the strength of the overall market. ETP velocity increased slightly in the fourth quarter compared to the third quarter, but was below the level seen in the same period a year ago. Average ETP velocity for the year remained below the level seen in 2023.

In summary, market activity increased in the fourth quarter when compared to the same period last year, but slightly less so when compared to the third quarter of this year, while the secular industry trend across the ETP universe continues to be strong.

I will now move on to the dynamics within the fixed income and crypto markets.

As shown on the top-left of this slide, trading volumes in the investment-grade and high-yield bond markets increased when compared to the same period a year ago, but declined when compared to the third quarter of this year – of last year. Volatility, as measured by the MOVE index, increased slightly compared to the third quarter, but was below the levels seen last year.

Trading volumes in digital assets doubled in the fourth quarter when compared to the third quarter and is slightly higher than the same period a year ago. Volatility was up slightly in the quarter compared to both the third quarter and the same period a year ago. Global crypto ETP market value traded also doubled in the quarter versus the third quarter and increased by more than tenfold compared to the same period a year ago.

On slide six, we present an overview of some of the key performance indicators for the fourth quarter on a regional basis. As Mike mentioned earlier, market ETP value traded improved in the fourth quarter when compared to the same quarter a year ago, as well as the third quarter. The robust and comprehensive trading capabilities that we have developed over the years across different regions and asset classes put us in the position to capture opportunities that arose in different parts of the market in the quarter.

Given the limited trading capital base, we deployed more capital to Europe, Asia and digital assets in the quarter. The better opportunities in those regions in asset class, plus the additional capital provided by our trading capital expansion plan, propelled us to the record fourth quarter results and the second-best annual result in the company's 20-year history.

In Europe, we maintained our position as a leading liquidity provider in ETPs amid increased market activity and heightened levels of volatility in the quarter. In the Americas, the heightened levels of implied market volatility going into the US election in early November dissipated almost immediately post the election. In Asia, we achieved record performance in the quarter, given the volatility around the monetary stimulus that was announced by the Chinese government in the quarter. The increased activity and volatility in Asia throughout the year resulted in a record year for us in Asia.

In digital assets, which trade 24/7 around the world, our through-the-cycle investments in our trading capabilities in the asset class allowed us to participate in resurgence over the course of 2024. With easing regulations expected in the US following the election of the new US administration in November, digital assets received another boost in the fourth quarter, and we were there to provide the liquidity the market required. This development and the continued institutional adoption of digital assets around the world further affirms our long-term investment strategy in digital assets.

And last but not least, we continue to partner with emerging market infrastructure providers in both traditional finance as well as digital assets to further participate in the growth and development of financial markets. Our latest partnerships include Boerse Stuttgart Digital and Wormhole in the digital asset space and OpenYield in the fixed income space.

I will now hand it back to Mike for the next slide.

Mike Kuehnel: Thank you very much, Alex.

After a few years of rapid expansion, we focused on integrating new talent and operational efficiencies the last couple of years, while still implementing our growth strategy at the same time. Fixed operating expenses in the quarter were flat when compared to the third quarter at €45.3 million and up 12% year-on-year due mostly to timing differences. Fixed operating expenses for the year came in at €179.1 million, which is an increase of 3% year-on-year and in line with guidance.

We achieved strong margins in the quarter as an upturn in NTI delivered a 52% EBITDA margin compared to 16% in the same period a year ago. Our EBITDA margin for the year was 45% compared to 22% in 2023.

The strong performance is a result of the high operating leverage inherent in our business, derived from the variable compensation philosophy that has contributed to the company's success over the past 20 years. We ended the year with 609 FTEs, slightly below the number at the end of 2023 and in line with guidance. We would like to note that the FTE figures were restated to exclude contractors and those on garden leave, as per the new CSRD reporting requirements.

For 2025, we expect fixed operating expenses to be the range of €190-210 million given additional technology investments and targeted additions of subject-matter experts in growth areas, partially offset by expected operational efficiency gains.

On slide number eight, we present both the NTI by region and NTI by asset class breakdown as they demonstrate the progress of our regional and asset class diversification strategy as presented at our capital markets update back in July of 2022.

For 2024, NTI contributions from the Americas and Asia accounted for 43% of total Group NTI, down slightly from 45% in 2023 given the strong contribution from digital assets which is traded mostly from Europe during the year.

From an asset class perspective, we decided to combine fixed income and CCC into FICC, which is more in line with the segmental reporting in our industry. NTI contributions from FICC together accounted for 51% of total Group NTI in 2024. This is an increase from the 48% in 2023, and is the first time that the non-equity portion of our trading strategies has exceeded the equity portion. As Alex mentioned before, our diversification strategy and the high degree of flexibility to quickly deploy trading capital across different asset classes and regions gave us the opportunity to steer liquidity to optimally capture market dislocations where they occurred.

On slide number nine, we take a look at the historical performance of the company in the context of market volatility.

As you can see in the chart on the left, the company has delivered structural NTI growth since the IPO with higher highs and higher lows, given the investments we have made in our trading capabilities across different regions and asset classes.

Our growth and diversification strategy has enabled the company to capture opportunities wherever they arose. This positions the company to deliver solid results during periods of muted market activity, while periods of high volatility provide strong upside. On the chart on the right, you can see the strong and healthy through-the-cycle average EBITDA margins of over 40% over the years, given the high operating leverage inherent in our business, of which our flexible compensation philosophy plays a large role.

Given our fixed versus rival compensation structure and the firm-wide bonus pool, employee compensation tracks in line with the profitability of the company and aligns the interest of employees with those of our shareholders.

Moving to the next slide, trading capital, as said before, is the lifeblood of any trading firm, and bolstering our trading capability capital is a strategic priority. Given the strong historical return on trading capital, we took the decision last July to accelerate the expansion of our trading capital base with the suspension of the dividend and the pursuit of external debt.

As a result of this major decision and strong profit generation, we were able to boost our trading capital by 33% over the course of the year to €775 million at the end of 2024, the highest level in company history. Note that given the rapid increase in trading capital as a result of the capital expansion plan, we will be using a return on average trading capital instead of return on trading capital going forward, which uses the average of the prior and current end of period trading capital instead of the current end of period trading capital in the denominator of the trading capital return calculation.

Shareholders' equity also increased by 31% to a record level of €768 million at the end of the year, tracking the level of increase in trading capital.

Please let me note that the difference between trading capital and shareholders' equity at the end of the year is mostly due to employee bonuses and taxes that will be paid in the first half of the year. Despite the rapid increase in shareholders' equity, we still delivered a strong 24% return on equity for the year, as the company has averaged an impressive 35% return on equity since its IPO.

The strong fourth quarter in 2024 results serve as a validation of the firm's trading capital expansion plan and the continuous expansion of our diversified set of existing and newly emerging trading strategies. We continue to believe that with the additional capital we can deliver significant returns and further strengthen our company's role as a leading global trading firm, providing liquidity and efficiency across a wide range of financial markets.

Moving to the next slide, I will now discuss market trends in our strategy.

On slide 11, you can see that the supporting megatrends which underline the firm's strategy remain very much intact.

These four key megatrends continue to shape our market environment, acting as tailwinds to our business and offer an abundance of opportunities for the company. Crucially, these trends all feed into and reinforce each other. Especially relevant to our core business is the ever-increasing acceptance of ETPs and growth in passive investing.

Total industry ETP AUM increased by $3 trillion in 2024 and is projected to increase from today's $15 trillion to $25 trillion by 2030, underscoring the strength and importance of the ecosystem we are a key part of. Electronification of trading is critical for all of our activities, but in particular, it is within the fixed income asset class where this is the key structural trend in corporate credit and emerging market sovereign bonds. Increasing adoption of electronic trading ties into our core technology-enabled competency set.

As highlighted in the fixed income white paper we published, credit algos have comprised close to 50% of executed volumes in euro credit in the last two to three years, especially in the sub-1 million ticket sizes. Fixed income ETF AUM is projected to triple from $2 trillion to $6 trillion by 2030. With the recent regulatory developments regarding digital assets, institutional interest in this asset class and total assets invested in cryptocurrencies accelerated over the course of 2024.

Over $40 billion of net funds have flowed into US spot Bitcoin ETF so far, and BlackRock spot Bitcoin ETF became the fastest ETF ever to hit $50 billion in assets under management in just

11 months. Cryptocurrencies are now a $3 trillion asset class, having doubled over the past year. We anticipate continued growth in investor demand as the asset class remains a long-term growth opportunity, with the underlying technology forecast to drive growth and the tokenisation of real-world assets from an estimated $250 billion today up to $30 trillion by 2030.

Lastly, regulation continues to be conducive to our business in terms of creating a level playing field from the aspect of execution transparency. For digital assets, increased regulatory oversight helps to create safeguards around the industry while removing barriers for investors. We continue to actively work with regulators all around the world to drive increased transparency, efficiency, and improve liquidity across all markets and asset classes.

Moving on to the last slide. On this slide, I will recap the firm's four key strategic pillars to grow, strengthen, and accelerate the business.

The first is to optimise our core and grow capital. This means building an increasingly resilient and efficient business model through dedicated optimisation of the firm's trading core, while simultaneously growing the firm's capital base to accelerate the monetisation of all existing and new trading strategies across asset classes and regions. The trading capital expansion plan we implemented last July was a significant step for the company in ensuring that we have the necessary capital to grow and diversify the business across the regions and asset classes. The second is to expand and enhance trading capabilities.

We will leverage our proprietary infrastructure capabilities and expertise to expand into adjacent products and enhance existing trading strategies. Our consistent investment into our digital asset trading capabilities over the past eight years ensured we were ready to support the launch of the US spot Bitcoin ETF last January, and we were able to reap the benefits of our multiyear investments.

The third is technology and innovation. We will further adopt emerging technologies and increase the utilisation of data insights within trading to improve our own pricing competency as well as internal hedge and execution efficiencies. The hiring of Owain Lloyd, our CTO, last year will help accelerate our efforts in building out our capabilities in these areas and enable improvements in our revenue capture.

And last but not least, diversify our business model and revenue streams. We will continue to invest in adjacent business propositions as well as in connectivity platforms, data, and tokens via dedicated partnerships to accelerate innovation across financial markets and to diversify existing revenue streams. We are looking forward to the launch of AllUnity, our euro-denominated stable coin partnership with DWS and Galaxy. It's an instrument that we expect to help bridge the world of traditional finance and digital assets, revolutionising and bringing new possibilities to traditional finance as we know it.

To conclude, we have much to celebrate with a record fourth quarter and the second-best annual result in the company's history, a timely and rewarding milestone given the celebration of the company's 20-year history. However, much work remains to be done to further diversify and strengthen our trading capabilities in order to deliver more consistent results quarter after quarter and year in and year out that are less dependent on market volatility. We expect to bring forth a clear roadmap to achieve this goal at our next capital markets update later in the year.

I will now hand the call back to Eric. Thank you.

Eric Pan: Thanks, Mike. This concludes the formal part of our presentation. We would now like to open up the floor for any questions you may have. Operator?

Questions and Answers

Operator: Thank you, Eric. If you would like to ask a question or make a contribution on today's call, please press star one on your telephone keypad. To withdraw your question, please press star two. We will pause for just a moment to allow everyone an opportunity to signal for questions.

We currently have no questions coming through. As a reminder, if you would like to ask a question, please press star one now.

We will take our first questions from Reg Watson from ING. Your line is open. Please go ahead.

Reg Watson (ING): Morning, all. Morning, Mike. Congratulations on the results.

Clearly, a vindication of your decision to suspend the dividend and go for retention of capital. I guess it begs the question then, how much more capital can you retain? You've spoken in the past about additional sources of capital. You have the bank loan. You still haven't tapped the hybrid instrument market yet. What's your latest thinking on this?

Mike Kuehnel: Yes, thank you so much. Indeed, I would like to give a bit of colour on this.

So, what I said last year still holds true. So, as long as the company is able to generate attractive trading capital returns on the incremental capital that we retain and are additionally put onto the balance sheet through debt, we will retain and continue our journey on that end. And I think the 69% trading capital return in 2024 with close to €200 million additional capital is a very strong indication.

The second point I would like to share is as we look into the trends I talked about, ETP adoption and acceleration, digital assets, etc., and even electronification, we see an ever-growing amount of opportunities in front of us.

If I just give you an example on the ETP adoption and specifically related to APAC and the growth we have seen doubling our NTI last year, you now see that the ETP adoption is now hitting emerging markets and the potential we see in countries such as China and other APAC countries, it's still a way to go for us to capture these opportunities over the next few years, but I think it's a very appealing opportunity for which we need capital.

The last point I would like to say is very much in line with earlier statements. As we look into now opportunities to put external debt onto the balance sheet, I think we had clearly the benefit in 2024 to have more capital to retained earnings, so that reduces the pressure on tipping into external debt, but at the same time, I also was quite vocal that our strategy is also around acceleration, and we are still committed in looking into different structures of putting debt onto the balance sheet, and I think it's a fair statement to make that in 2025, we will continue on that journey and increase debt on our balance sheet in order to grow. And then in terms of growth, it's also fair to say it will be a combination of asset class growth and regional expansion.

Reg Watson: Okay, thank you, and I have a follow-up question. I have my own views on this, and I think I know what your answer is going to be, but I'd like to hear it again, and the reason I ask this question is that there is criticism from some quarters. Not mine, I hasten to add, so, I'm just a messenger here, but you are losing share to better-capitalised competitors such as Jane Street. How do you respond to – how do you respond to this criticism?

Alex Kieft: I think that in Europe, we're still a market leader. I think we also saw a small uptick in market share. Market share is not necessarily something we target. We look at profitability, and we're there to provide liquidity.

We do see with the increase in capital base that we're able to compete also for larger trades, so we expect that with the expansion of our capital base, that's a requirement for us to maintain the leading position, and we're – we believe that we are in a good position to keep doing that.

Reg Watson: Okay, thank you.

Operator: Thank you. As a reminder, if you would like to ask a question, please signal by pressing star one on your telephone keypad. We will take our next questions from Michael Werner from UBS. Your line is open. Please go ahead.

Michael Werner (UBS): Thanks, guys. Congrats on the strong quarter. I believe you mentioned earlier that there were some unrealised gains in the crypto space that helped your revenues that you say potentially could unwind going forward in Q1 if I heard correctly.

I was just wondering if this is kind of a change in strategy. You guys have been very kind of balance sheet neutral in the past. I was wondering if crypto requires you to maintain an inventory, and ultimately, what – any colour in terms of the size of those unrealised gains. Thank you.

Mike Kuehnel: Good morning, Michael, and thank you so much.

Yeah, so directly to your question, it's not a shift in strategy in terms of balance sheet intensity, if I can put it like that. We have been, with the inception of our venture fund two years ago, quite vocal that we see that some minority investments across themes like connectivity, data, platforms, tokens, give us an edge as a market maker to position ourselves adequately. The second leg to that is once we do that, we form a very strong partnership with these propositions and parties in the market, helping them with our expertise and experience to really drive growth faster.

So this is very much embedded in the investment we do is the bridge into building strong alliances across the market in order to help the market to thrive. I think the last point on this, if there is a challenge around digital assets, then there is not yet the unified vision or version of where it might land in a few years. So, by building these, or building these alliances across the market, we also have an ability to have a higher share of voice.

So, you can expect that this is not increasing the balance sheet intensity going forward, and we are also quite selective on the bits – the bets we place in the market.

Then to the unrealised gain, so the point I just made is, as you might expect with the Other income line for the full-year '24, that this is a growing trend. And I was just cautious in making the point that if the market would reverse and turn into negative, just hypothetical, that this Other income line would be impacted by it.

So, the way we look at it, these are deep strategic investments, and they very much help us on the core business side of the firm to grow faster.

Michael Werner: Perfect. Thank you for clarifying. Appreciate it.

Operator: Thank you. It appears we have no further questions. I will now hand back to Eric for any additional or closing remarks.

Please go ahead, sir.

Eric Pan: Thank you, Operator. We would like to thank all the analysts for participating in today's call. Please know that we will host our next analyst call when we release our first quarter trading update in April. Details and timing for this call will follow in due course.

This now ends the call. Thanks again and have a great day.

Operator: Thank you for joining today's call. You may now disconnect.

[END OF TRANSCRIPT]