FLOW TRADERS

Q1 2024 Results

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Operator: Hello and welcome to the Flow Traders Q1 2024 Results Conference Call. My name is Karen, and I'll be your coordinator for today's event. Please note, this conference is being recorded and for the duration of the call, your lines will be on listen-only. However, you will have the opportunity to ask questions at the end. This can be done by pressing star one on your telephone keypad. 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, Head of Investor Relations, to begin today's conference. Thank you.

Eric Pan: Thanks, Karen. Good morning, and thank you for joining Flow Trader's first quarter trading update call. As you will no doubt have already seen, we released our trading update first in this morning. I am joined here on the call by Flow Trader CEO, Mike Kuehnel, as well as Global co-Head of Trading, Coen van Sevenhoven, who will run through this results presentation. Afterwards, we will be happy to take any questions you may 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 trading update we will discuss in this presentation are unaudited.

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

Mike Kuehnel: Thank you, Eric.

Good morning, and thank you all for joining this morning's call, where we will provide additional colour on our first quarter 2024 trading update. Before we dive into the numbers, I would just like to point out that the first quarter served as further validation of our growth and diversification strategy, with the resurgence interest in digital assets in the quarter giving us a strong boost in our results. But this could not have happened without years of investments into the asset class, with our journey into digital assets beginning more than seven years ago.

The first quarter also served as an excellent example of our ability to dynamically allocate capital to where the opportunities are. As one can see in the chart on the left, the dynamic allocation of our trading capital throughout the years is what has contributed to the strong historical return on trading capital. Annualised return on trading capital was 84% in the first quarter and our return on trading capital has averaged 76% over the past ten years.

Given that our trading capital is limited, our inclination to shift trading capital around is also the reason why we feel that the focus on the overall return on trading capital, our total NTI, is more important for the investor rather than on where we generate our NTI each period. At the same time, as the right-hand chart shows, Flow Traders has paid out over €700 million in dividends to our shareholders since the IPO, which is more than our current trading capital base and just slightly less than our current market cap.

Given the scarcity of trading capital and our consistent strong returns, bolstering our trading capital will be one of the top priorities for the team.

Now, diving into the numbers on the next slide. The first quarter of 2024 as a whole saw a slight improvement in the level of market activity, as total market ETP value traded was up 2%

when compared to last quarter and increased by 6% when compared to the same period a year ago. However, volatility remained subdued and was relatively flat quarter-over-quarter and down significantly when compared to Q1 of last year. Our own ETP value traded tracked relatively in line with the market, as it increased by 9% in the first quarter compared to the last quarter and decreased by 3% when compared to Q1 of last year.

Value traded across each of our three asset class pillars for the year, saw corresponding movements that were largely in line with the market, with crypto seeing the largest increase both quarter-on-quarter and year-on-year, given the spot Bitcoin ETF launch in the US and the associated renewed interest in the asset class. As a result of our continued participation and investment in the digital asset space, we delivered strong results this quarter despite the subdued environment in other asset classes.

Total income came in at €129.6 million for the quarter, a 75% increase compared to last quarter and 15% improvement compared to the same period last year. Net trading income came in at €127.1 million plus Other income of €2.5 million. As a reminder, the Other income line item reflects the unrealised gains and losses of our strategic investment portfolio.

Despite subdued volatility levels that remain well below that of the same period a year ago, we were able to generate €61.1 million in EBITDA, which is more than a fourfold increase compared to last quarter, and a 52% improvement compared to Q1 of 2023, which was already a strong quarter.

Net profit for the period amounted to €45.9 million, with basic EPS of €1.06.

The strong result from this quarter serves as further validation of our growth and diversification strategy, as we continued to focus on implementing our strategic growth agenda over the last 12 months amidst the subdued trading environment in most asset classes.

I will now hand it over to Coen, our Global co-Head of Trading, to review recent ETP market dynamics on slide four.

Coen van Sevenhoven: Thanks, Mike, and good morning, everyone.

As shown at the top-left-hand side of this slide, ETP market value traded increased slightly in the first quarter compared to the previous quarter and compared to the same period a year ago. Implied volatility, as represented by the VIX, was slightly lower in the first quarter compared to the last quarter, and continues to be down about 30% when compared to the first quarter of 2023.

ETP assets under management increased by 8% from the end of 2023, given the strength of the overall market, and continued to the net ETP inflows. ETP velocity remained relatively flat in Q1 2024 in EMEA and APAC, and saw a slight downtick in the Americas.

In summary, despite the currently muted market circumstances, the outlook across the ETP universe continues to be strong.

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

As shown on the top-left of the slide, trading volumes in the investment-grade and high-yield bond markets continue to increase both compared to last quarter and compared to the same period a year ago. However, credit spreads and volatility decreased in the quarter compared to Q4 and Q1 of last year.

The global crypto ETP market value increased by more than tenfold in the quarter, driven by the spot Bitcoin ETF launch in the US. The value of Bitcoin and other digital currencies continued to accelerate in the quarter as a result of the increased interest in the asset class.

I will now hand over to Mike for the next slide.

Mike Kuehnel: After a few years of rapid expansion, we are now focused on cost and operational efficiencies while implementing our growth strategy at the same time.

As you can see, fixed operating expenses in the first quarter decreased by 1% year-over-year and is in line with our guidance. We achieved strong margins in the quarter as an upturn in revenues delivered a 47% EBITDA margin, compared to 36% in the same period a year ago.

We ended the quarter with 633 FTEs, down 2% from the 646 FTEs at the end of the fourth quarter, which is also in line with our guidance of flat-to-down for the year, given expected efficiency gains, while we continue to bring on board additional talent in growth business areas.

Our guidance on fixed operating expenses remains unchanged as the firm remains fully focused on operating and cost efficiencies across the business while implementing our growth and diversification strategy.

I will now hand back the call to Eric.

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: Ladies and gentlemen, if you would like to ask a question or make a contribution on today's call, please press star one on your telephone keypad, or to withdraw your question, please press star two.

Our first question comes from Michael Roeg from de Groof/Petercam. Your line is open. Please go ahead.

Michael Roeg (Bank de Groof/Petercam): Yes, good morning, gentlemen. I don't have a question, I have more a request. Would it be –

Operator: I think we have just lost him. We'll take our next question from Julian Dobrovolschi from ABN AMRO. Your line is open. Please go ahead.

Okay, we'll take our next question from Reg Watson from ING. Your line is open. Please go ahead.

Reg Watson (ING): Morning, all. First time lucky. Can you hear me?

Mike Kuehnel: Yes, loud and clear.

Reg Watson: Fantastic. So, Mike, I appreciate that this is an IMS, and providing granularity is not something that's normally done in an IMS, but given the stratospheric increase, I mean, it's a ten – it's a ten-bagger increase in global crypto ETP value traded. Please, could you give us more granularity on the NTI contribution from crypto in the quarter? And also going forward, whether or not you expect this to be something that's repeated, or if it's simply a one-off because of the inflow of money, and then where you think this will actually normalise going forward because clearly there is a step change in the crypto business, and it becomes very difficult for us to anticipate, I think, how this – how this pans out.

Mike Kuehnel: No, thanks. Appreciate the question. So, Coen will answer it?

Coen van Sevenhoven: Yes. So there was a clear increase in the ETP value traded. While we don't disclose the exact contribution of asset classes, the split between them, it is fair to say, as alluded by Mike earlier, that the digital asset environment, in contrast to the other asset classes saw a very favourable macro environment driven by the launch of the Bitcoin ETP. So, yeah, that was very positive for our trading strategies.

On your question for the forward outlook, it's of course very difficult to predict the future, especially when it comes to the digital asset space. However, we do believe that the Bitcoin ETF launch bolsters, like, the interest in the segment, and we do not expect that the activity in the asset class will return to areas before.

So we think in the long run, this is a – this is a strong development for the asset class.

Reg Watson: Yeah, okay. And I guess I hear what you're saying there. Is it fair to say then that you yourselves don't really have a view on where it's going to end up? Because appreciate, it's not going to end up back where it was. But the delta between 15 and 157 is pretty wide. And similarly, the contributions, I'm just trying to build a picture for, as I said, how much of the NTI you generated in the quarter, even though you haven't disclosed it. We can make a guess because we know what it ought to have been without, and that's where the consensus number is. We're just trying to understand how much of this is down to the creation of new ETPs by the actual sponsors themselves, or whether this is you creating on their behalf, or whether there was so much trading after the creation of the ETPs that you were then able to be active in making markets in those ETPs. I'm really just trying to understand how your role has played out in the quarter, and how you expect your role to play out going forward.

Coen van Sevenhoven: Yeah. So perhaps it's good to explain, like as an authorised participant, you need to be self-clearing. But the fact that we're not an authorised participant does not mean we're limited in any kind of way to trade these products, as we are able to create and redeem every single ETP listed in the US. And we were active across all of them during the quarter.

Reg Watson: Right. Okay.

Mike Kuehnel: And if I may – if I may add, nobody can predict the future, but what we have brought back to this table in the past is that we very much believe in the benefits to the broader community around not just crypto, but tokenization of assets. And I think it's fair to say that on top of the Bitcoin launch in the US, we have seen more institutional appetite for adoption. And I think that's the long-term bet for the business, impacting hopefully not just us, but also others around us.

So I feel, building up on Coen's point before, I think it's probably a good outlook to say that hopefully over the next months and years to come, we are getting into not just more adoption, but also further institutionalisation of the broader digital asset space, which should very much be a benefit for the firm.

Reg Watson: Okay, that's great. Thank you. Hopefully, the other guys have been able to re-register their calls. So I'll jump off now, and thanks, guys.

Operator: Our next question comes from Michael Roeg from de Groof/Petercam. Your line is open. Please go ahead.

Michael Roeg (Bank de Groof/Petercam): Good morning. Can you hear me?

Mike Kuehnel: Now, loud and clear. Good morning, Michael.

Michael Roeg: Okay, well, I guess my question on crypto has already been answered, so I'm left with a request. Would it be possible after the meeting to send the e-mail to all the analysts with the NTI per region and the value traded per region because then we can reconcile all of that with all the data we have historically, and we can also keep on tracking market share compared to the global ETP value traded?

Mike Kuehnel: Yeah, so that's an important point, Michael. So as we are now looking into this quarter, I think it's important to highlight that given how the firm has evolved and also how markets have evolved, we clearly see that we are operating this firm with a truly global perspective. And the point I made in earlier calls on the importance of allocating capital strategically and tactically to the most profitable trading opportunities brought us to a point that the region is split. In our view, it's not a fair reflection of how we are generating profits and value, shareholder value in this firm and hence the disclosure this morning.

I think it's also important to say that this implies the relevance of trading capital and the point I made earlier on our consistent track record on generating attractive trading capital returns as an indication of the strength of our trading strategies and more importantly, how we have evolved these over time across regions and asset classes also very much came to a point where we became fully asset class and from a regional perspective, agnostic. I think that's the key message we wanted to share, also framing the opportunity for the firm going forward.

Michael Roeg: Okay, well, I understand the answer, but if I look at it from the sell-side point of view, you're now removing the normalised EBITDA data again. You're removing the regional data. So we cannot track the market shares or the revenue capture per region. And generally taking a few steps back in transparency is not appreciated by people, generally is not good for the risk profile.

And also keep in mind also in the sell-side we have to consider where we allocate all the resources. So I would again urge you to do send us that information.

Mike Kuehnel: Well, I think there are a few points to highlight, and I appreciate the discussion, Michael.

I think the first point is made it or shared it before. Given trade sensitivities, we are still committed to publishing NPI by asset class on an annual basis as outlined in the Capital Markets Update, and we will continue to do so.

But more importantly, any consideration, any feedback from your site, the broader analysts and investor community will take into consideration for further disclosures when we look into Q2 and the quarters ahead of us.

Michael Roeg: Okay, thank you for that. That's it from my side. Thanks.

Operator: Our next question comes from Julian Dobrovolschi from ABN AMRO. Your line is open. Please go ahead.

Julian Dobrovolschi (ABN AMRO ODDO BHF): Hello, good morning. Do you hear me now?

Mike Kuehnel: Loud and clear. Good morning, Julian.

Julian Dobrovolschi: Perfect. Good morning. Yeah, thanks for the presentation and taking my questions.

Probably I'm going to touch across pretty much everything that was discussed already by – in the previous Q&A, but maybe to begin also on the kind of, you know, on the – on your positioning and also the mix of core ETF business. I still call it core because, well, that's kind of historically where flow is coming from. But can you please update us, probably a bit on the position in this market, for example, again, in the core ETF business, roughly speaking, I mean, we saw a couple of your peers doing very well in this market, but was wondering, you know, how does that reflect the flow? And maybe just to kind of expand on this idea for Q1, sounds like we did a really good job allocating a good portion of trading capital to digital assets trading, which reflected in a very high NTI. So I think the value market likes it.

But you know, how easy is for you to basically reallocate capital to your core business and regain market share if there is some reason? Let's say if for some reason, for example, digital assets activity becomes very weak in some quarters, can you just basically allocate the capital again? For example, Q2 digital assets is very bad, is it easy for you to basically funnel back the capital and try to capture the position that you had in Europe in the core ETF business, or that's going to get a bit of a challenge going forward?

Mike Kuehnel: Yeah, this is a very good question. So let me take a few bits and pieces. The first point is, as to the ability to reallocate capital, there are, yeah, no limitations. So the way we basically look into the trading capital pool and what I mentioned before, trying to find the most optimal, most profitable trade, we have built over the last few years, a very, let's say, fluid underlay in a way, in order to make sure that we can shift the capital across asset classes and regions as much as needed. So from that perspective, I think it's the strategic strength of the business to not just identify the most profitable trading opportunities, but also being able to shift capital into these and then to actively deploy the trading strategies. I think that's the first important piece.

The second important piece is when it comes to market share, we are not managing this by market share. What we are managing is driving P&L and making sure that we have a sustained positive track record in deploying capital across the variety of different trading strategies. We have made a point before that in market circumstances where volatility and volumes go down, the market share impact is bigger than in high-volume environments.

But the reality is we have not seen a competitive shift around us. We are monitoring the market. And the point I made before, the relevance of trading capital very much relates back to that because we are committed to building our trading strategies across the various different asset classes, and in a way make that a regional – a global reality and not a regionally restricted one.

So, as such, I think we are keen to stay committed to all the asset classes. And not being able to predict the future, think it's also an important statement to make strategically for the firm that the asset-agnostic perspective should even help us down the road even more to generate attractive shareholder returns.

Coen van Sevenhoven: Yeah. And perhaps more specifically to your question, given our collaborative and global nature of the firm, we're able to shift capital between asset classes and regions on a daily basis. So we're very flexible when it comes to this.

Julian Dobrovolschi: I obviously understand that because probably, I mean, you're not – you're definitely one of the kind of leader in what you do. So I wouldn't doubt that, let's say, the agility of kind of reallocating capital from one bucket to another one. For me, it's more of a concern to this question, doubt whether the let's say, positioning that you had in Europe, if that was basically, let's say, lost structurally, or that, again, you can basically regain it quick and basically get back the same client base that, for example, you had even two years ago on the quality of business.

So that's probably one of my concerns. I mean, again, if crypto melts down, for whatever reason, can you actually get back and try to get the same, let's say, KPIs in terms of market shares and take rates and the quality of business, at least in Europe? So that's kind of one of my concerns.

I mean, I get, I take your answers and probably, I mean, I also get what you said earlier in the previous questions, but yeah, it's just a concern from my side. And maybe also just to kind of expand a bit deeper on that one. The way at least I make the model is definitely looking at market shares and try to kind of forecast future market shares more or less, and also take rates. Now, as you don't really disclose those data points, for me to basically compute historical market shares, I'm just afraid that my model in this case is going to be even more volatile and kind of, let's say, unpredictable.

So again, kind of in terms of computing the consensus figures, there is a risk that this could be even more – you could find even a higher, let's say, variation and let's say, variance within every single analyst.

Mike Kuehnel: Yeah. No, indeed. I think that's helpful to know, Julian. I think the point in the market share is if we consciously reallocate capital from a kind of relative perspective to higher NTI-generating strategies, then, I mean, if you totally look into your model in isolation, then you would assume, okay, there must be a structural shift, right, in the market that we are losing market share. But the reality is we are, as Coen said, you know, actively allocate capital left and right.

And it's a reality that even in low-volume environments, there are interesting market dislocations where we create significant benefit as a market maker with higher P&L churn. So I think this is – this is a point. And quite honestly, the reality for us as a firm is that we have retained our market-leading position on the ETP side for the last few years, and we have not seen any kind of major shift around us that would give us a concern on the structural side.

Julian Dobrovolschi: Yeah. Okay, cool. I'll take that, Mike. Thank you. And maybe another one on the trading capital return. So, yeah, this one jumped above 80% from 50% last quarter. Whilst if you do say that most of the NTI was generated by the crypto trading. I think at least one data point that I have is in the CMD 2022 when it was mentioned that the returns on crypto trading was 40%. Well, just because you had high NTI generation from crypto trading this quarter, and also returns on trading capital jumped by about 30 percentage points quarter-on-quarter, should we assume that the whole crypto market just became more efficient and then the returns on trading capital within that market also increased? Or how should we read the increase in trading – in the returns of trading capital in the quarter?

Mike Kuehnel: Yeah, we're not commenting on specific trading capital return by asset class in that sense. But what I can share, Julian, is that seeing the reference I made before on adoption, I feel it's fair to say that the mid-to-long-term outlook is that there will be increased capital efficiency, specifically around the institutional adoption and also, in a sense, MiCA impacting the European landscape. The broader, I would say, regulatory harmonisation across the landscape. I would assume that not setting the stage for the future, but giving an indication that from a capital efficiency point of view, I think that asset class will evolve over the years to come.

Julian Dobrovolschi: Cool. Got it. All right. Thank you so much. And, yeah, I think the results look good so far into this quarter. Thank you.

Mike Kuehnel: Thanks, Julian.

Operator: As a final reminder, ladies and gentlemen, if you would like to ask a question, please press star one on your telephone keypad.

There are no further questions. So I'll hand you back over to your host to conclude today's conference.

Eric Pan: Great. Thank you very much, Operator. We would like to thank all the analysts for participating in today's call. Please note that we will post our next analyst call when we release our second quarter and first half 2024 results in July. 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.

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