

FUTU Earnings Call Transcript

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Quarter: 3

Daniel Yuan: Hello, ladies and gentlemen. Welcome to Futu Holdings Limited Third Quarter 2025 Earnings Conference Call. At this time, all participants are in a listen-only mode. After management's prepared remarks, there will be a question and answer session. Today's conference call is being recorded. If you have any objections, you may disconnect at this time. I would now like to turn the conference over to your host for today's conference call, Daniel Yuan, Chief of Staff to CEO, Head of Strategy and IR at Futu Holdings Limited. Please go ahead, sir.

Daniel Yuan: Thanks, operator. And thank you for joining us today to discuss our third quarter 2025 earnings results. Joining me on the call today are Mr. Leaf Li, Chairman and Chief Executive Officer, Arthur Chen, Chief Financial Officer, and Robin Xu, Senior Vice President. As a reminder, today's call may include forward-looking statements, which represent the company's belief regarding future events, which by their nature are not certain and are outside of the company's control. Forward-looking statements involve inherent risks and uncertainties. We caution you that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. For more information about the potential risks and uncertainties, please refer to the company's filings with the SEC, including its annual report. With that, I will now turn the call over to Leaf. Leaf will make his comments in Chinese, and I will translate. Thank you all for joining our earnings call today. We concluded the third quarter with 3,130,000 funded accounts, marking a 43% year-over-year and 9% quarter-over-quarter increase. During the quarter, we acquired 254,000 net new funded accounts, up 65% from a year ago and 25% sequentially. We are encouraged to see accelerated client acquisition in all markets. In the third quarter, Hong Kong posted the highest quarterly net client app since 2021 and remained the largest contributor to new funded accounts among all markets for four straight quarters. We effectively sparked and captured clients' trading interests amid a quarter of strong equity market performance and busy IPO schedules. With a new IPO framework, retail investors in Hong Kong increasingly consolidate their brokerage accounts to increase their chances of getting out CEO allocation. And they tend to pick a trusted platform with the best overall user experience as their main brokerage account. In Singapore, new funded accounts again posted steady sequential growth. We led our peers in DAUs by an even wider margin, further solidifying our position as the number one retail broker in Singapore. Following seven quarters of rapid expansion in Malaysia since launch, we still see a huge runway for future client growth as equity ownership continues to go up. In the third quarter, we further strengthened product localization by launching Versa Derivative and SGX Futures. An upgraded AI tool to support Malay language and local stock analysis. Our annual flagship offline investor event, MoveFest, was held in Singapore in July and in Malaysia in October, altogether attracting over 28,000 investors to sign up and further elevating our brand image in the region. Thanks to our growing brand recognition and product experience, our US business delivered another quarter of high-quality growth. We achieved a high double-digit sequential increase in new funded accounts. We also observed another quarter of more active derivatives trading activity, as both the number of option traders and option contracts traded recorded double-digit sequential growth. As of quarter-end, total client assets reached HKD 1.24 trillion, up 79% year-over-year and 27% quarter-over-quarter. The growth was driven by another quarter of robust net asset inflow, while the appreciation in client stock holdings also contributed meaningfully to the overall asset expansion this quarter. Average client assets logged

double-digit sequential increases and hit new highs in every market. Bullish sentiment on Hong Kong and US equities prompted more leveraged positions. The buoyant Hong Kong IPO market also boosted financing demand. As a result, margin financing and securities lending balance climbed 23% quarter-over-quarter to HKD 63.1 billion. Total trading volume rose 105% year-over-year and 9% quarter-over-quarter to HKD 3.9 trillion on the back of favorable market dynamics and upbeat investor sentiment. Elevated trading velocity and technology names lifted overall Hong Kong stock trading volume by 43% sequentially to HKD 1.19 trillion, which accounted for 31% of total trading volume, the highest percentage since 2023. US stock trading volume remained elevated at HKD 2.6 trillion, as many technology and crypto names posted new highs. Trading volume surged 161% sequentially, driven by a 90% quarter-over-quarter increase in crypto asset balance and accelerated trading velocity. Ethereum trading volume quadrupled during the quarter, overtaking Bitcoin as the most popular coin on our platform. In Hong Kong, the launch of Solana for retail investors was well received. Solana contributed meaningfully to the growth of crypto turnover this quarter. We believe that as we continue to broaden coin selection, strengthen product capabilities, and deepen investor education, there is significant potential to further drive crypto trading penetration among our client base. For the period-end, wealth management assets rose 8% sequentially to HKD 175.6 billion. During the quarter, clients increasingly allocated to fixed income funds, alongside the sustained inflow into money market funds. To better serve the bespoke needs of professional investors, we introduced a self-service request for quote function to structure products, whereby clients can customize products based on their desired parameters, access and compare quotes from a number of issuers, and execute trades seamlessly without human intervention. We leverage technology to remove friction in the client experience while driving operating efficiency. We ended the quarter with 561 IPO distribution and IR clients, up 22% year-over-year. We continue to play a leading role in facilitating retail participation in the heated Hong Kong IPO market. In the third quarter, 12 IPOs each attracted over HKD 100 billion in subscription amount on our platform. We served as joint book runners for multiple well-known listings, including those of Cherry Automobile Group and Lens Technology. Notably, in the Putong Group IPO, we assumed the role of overall coordinators for the first time, underscoring the advancement of our enterprise service capabilities. Next, I would like to invite our CFO, Arthur, to discuss our financial performance. Thank you, Leaf and Daniel.

Arthur Chen: Please allow me to walk you through our financial performance in the third quarter. All the numbers are in Hong Kong dollars unless otherwise noted. Total revenue was HKD 6.4 billion, up 86% from HKD 3.4 billion in 2024. Brokerage commission and handling charge income was HKD 2.9 billion, up 91% year-over-year and 13% quarter-over-quarter, both primarily driven by higher trading volume. The change in planned commission rate was mostly technical in nature. The blended commission rate declined year-over-year as clients traded higher-priced US options compared to a year-ago quarter, while the quarter-over-quarter increase implied the commission rate was due to sequentially stronger trading activities in low-priced US stock and options. Interest income was HKD 3 billion, up 79% year-over-year and 33% quarter-over-quarter. The year-over-year increase was driven by higher interest income from security borrowing in the lending business, margin financing, and bank deposits. The quarter-over-quarter increase was driven by higher interest income from security borrowing and the lending business as well as higher margin financing interest income. Other income was HKD 441 million, up 111% year-over-year and flat quarter-over-quarter. The year-over-year increase was primarily attributable to higher currency exchange service income, fund distribution service income, and IPO subscription service charge income. Our total cost was HKD 780 million, an increase of 25% from HKD 625 million in 2024. Brokerage commission and handling charter expenses were HKD 161 million, up 97% year-over-year and flat quarter-over-quarter. Both the year-over-year and the quarter-over-year increase was roughly in line with the change of our brokerage commission and handling charging income. Interest expenses were HKD 474 million, up 17% year-over-year and 25% quarter-over-quarter. Both the year-over-year and the quarter-over-quarter increase was mainly due to higher interest expenses associated with our security borrowing and lending business, as well as high margin financing interest expenses. Processing and servicing costs were HKD 146 million, up 12% year-over-year and 10% quarter-over-quarter. The year-over-year increase was largely due to higher market information and data fees. The quarter-over-quarter increase was mainly driven by higher

marketing information and data fees, as well as higher product service fees. As a result, our total gross profit was HKD 5.6 billion, an increase of 100% from HKD 2.8 billion in 2024. Gross margin was 87.8% as compared to 81.8% in 2024. Operating expenses were up 57% year-over-year and 31% quarter-over-quarter to HKD 1.7 billion. R&D; expenses were HKD 574 million, a 49% year-over-year and 30% quarter-over-quarter. The year-over-year and the quarter-over-quarter increase was mainly driven by our greater investment in crypto and AI capabilities. Selling and marketing expenses were HKD 586 million, up 86% year-over-year and 36% quarter-over-quarter. Both the year-over-year and the quarter-over-quarter increase was mainly attributable to higher new fund accounts. G&A; expenses were HKD 535 million, up 40% year-over-year and 26% quarter-over-quarter. Both the year-over-year and the quarter-over-quarter increase was primarily due to an increase in general and administrative headcount. As a result, income from operations increased 127% year-over-year and 17% quarter-over-quarter to HKD 3.9 billion. Operating margin increased to 61.3% from 50.4% in 2024, mostly due to strong top-line growth and operating leverage. Our net income increased by 143% year-over-year and 25% quarter-over-quarter to HKD 3.2 billion. Net income margin expanded to 50.1% in the third quarter as compared to 38.4% in the same quarter last year. Our effective tax rate for the quarter was 16.7%. That concludes our prepared remarks. We now would like to open the call to questions. Operator, please go ahead.

Operator: Once again, we will take our first question. The question comes from the line of Cindy Wang from China Renaissance. Please go ahead. Your line is open.

Cindy Wang: Thanks for taking my call, and congrats on the very great result in Q3. I have two questions here. First, client assets performed very strong in Q3. Could you break down by mark-to-market gains and net asset inflows? And what is the current run rate for net asset inflows and client assets in Q4? Second, customer acquisition cost in Q3 was higher than Q2, but still lower than your early full-year guidance. So given the stock market pullback order today, what's the recent customer acquisition trend, and what do you expect the customer acquisition cost in Q4? Thank you.

Arthur Chen: For the first question, regarding the asset movement, around one-third comes from the net client's asset inflow, and the remaining two-thirds come from the mark-to-market fluctuations. In the fourth quarter to date, actually, the mark-to-market implication was negative. But on the flip side, the asset inflows we see the momentum remains very robust. There is no slowdown compared with the second quarter or the third quarters. In the third quarter, regarding the client acquisition, the average cap in the third quarter is around HKD 2,300, slightly up on a quarter-over-quarter basis. But on the absolute levels, it still remains below our full-year target range of HKD 2,500 to HKD 3,000. In the fourth quarter to date, what I witnessed is that both the client acquisition momentum and also client acquisition cost remain quite healthy. So overall speaking, I feel more optimistic regarding our over-year client acquisition cost versus our objective at the beginning of this year. Thank you.

Operator: We will take our next question. Your next question comes from the line of Peter Zhang from JPMorgan. Please go ahead. Your line is open.

Peter Zhang: Thank you for giving me the opportunity to ask a question. This is Peter Zhang from JPMorgan. We have two questions. The first question is related to interest income. We saw the third quarter interest income record very strong sequential growth. We would like to understand what's the driving forces behind the strong momentum. Can you help us to break down the interest income into the key items, such as the interest income from the client idle cash, from margin financing business, and from the security lending? We also noticed that the security borrowings' contribution to interest income has been very strong in the second and third quarters. We want to understand, is this purely due to the market, or is there something Futu Holdings Limited has been doing at the content level to lead to the strong growth? Our second question is related to the crypto business. We wish to understand what's the latest crypto business contribution to your revenue in the third quarter. And looking ahead, what will be the driving forces for the crypto business to expand? For example, is this mostly due to the expansion of the token offering on your platform, or are there other potential business opportunities like derivatives that may have some upside to your crypto business? Thank you.

Arthur Chen: Regarding the breakdown of the interest income in the third quarter, we have two different results arising from the interest income. Number one is from the client's idle cash. The second is from the margin financing, and the third is the security borrowing and lending. Actually, in the third quarter,

the percentage for these resources is quite even. Regarding the security borrowing and lending business, we see a very strong momentum in the second quarter and the third quarter. But mainly, the driving force was from the market itself. In particular, there will be more utilization for certain hard-to-borrow stocks in the third quarter. Thank you.

Daniel Yuan: Peter, this is Daniel. I'll take your second question on our crypto business. First of all, I'm going to give you a breakdown of the exponential growth we saw in the third quarter, and then I'll discuss the outlook for this business. The strong crypto growth was quite broad-based across the three markets that we currently offer crypto trading. In Hong Kong, for example, our client's crypto AUM and crypto trading volume both reported triple-digit sequential growth. As we mentioned in our opening remarks, Solana was very popular among our retail clients, which is the new coin launched in the third quarter. In Singapore, we also saw triple-digit growth in trading volume and continuously growing penetration among our funded accounts. In the US, we launched a number of new functions, including market orders and added 10 new coins, which really helped drive crypto AUM and volume. So far, as we've seen in the third quarter, there's a lot of volatility in the crypto market, but we've seen that a lot of our clients really took advantage of that volatility. In October, for example, we've seen the crypto volume continue to grow high double-digit month-over-month and hit a new high for monthly volume and the continuous uptake in crypto penetration. These are all very encouraging signs. But still, crypto contributed a very small percentage to Futu Holdings Limited's current revenue. But we think there is a long runway for growth in terms of driving crypto penetration on our client base and driving crypto revenue. In terms of some of the factors and catalysts that are going to help with that revenue growth, I agree with a lot of the things you mentioned just now, like a broadening of token offering will be quite helpful and will be a direct beneficiary of that. Of course, derivatives with higher take rates are going to help with monetization. But a lot of these developments will be contingent on regulatory approvals. In the long term, we're quite optimistic about the growth of this business. We understand that a lot of these new businesses don't really grow in a linear fashion.

Peter Zhang: Thank you. I have a follow-up on the interest income part of the question. We wish to understand what's the fourth-quarter trend on interest income, particularly for your security borrowing business. Do you see the momentum continue in the fourth quarter? Thank you.

Arthur Chen: Regarding your question about the interest income trend, we do not have the high-frequency data set for the interest income, particularly regarding the security borrowing business. But I'm very happy to give you an update during our fourth-quarter result. Thank you.

Operator: We will take our next question. Your next question comes from the line of Emma Xu from Bank of America Securities. Please go ahead. Your line is open.

Emma Xu: I have two questions. The first one is about the sensitivity analysis to the Fed rate cut, and the second one is about your R&D; and G&A; costs. They increased notably quarter-over-quarter and year-over-year. You mentioned earlier for the R&D; expense it's mainly related to crypto and AI capacity investment. And for G&A;, for G&A; staff increase, could you tell us what's your target or your plan for investment in these areas?

Arthur Chen: Regarding the interest income sensitivities from the Fed, as we give the market some estimation for every 25 basis point cut by the Fed rate, our monthly pretax profit will be negatively impacted by around HKD 37 million. But having said that, the rate definitely will have a lot of positive factors such as trading velocity increase and also more clients' asset inflows, which will partially offset, if not fully offset, this potential negative implication from the rate cut. Regarding the second question, for the quarter-over-quarter increase on the R&D; and G&A; expenses, for the G&A; expenses, we do have some front-loading costs in the preparation of certain new markets we may open in the next two years. Secondly, we have invested a lot on the crypto side, especially on the system, in the preparation of certain license applications, not only including Hong Kong but also in other markets. Regarding the AIs, we will further optimize our AI capabilities, especially for the external part. There will be further optimization for our AI agent for our clients. Internally, we will further utilize our AI capabilities to streamline our business process and enhance our operating efficiency. Thank you.

Operator: We will take our next question. Your next question comes from the line of Yu Fan from CICC. Please go ahead. Your line is open.

Yu Fan: Thanks for taking my question. Congratulations on the outstanding results achieved this

quarter. This is from CICC. I have two questions here. The first question, we see the strong customer growth this quarter. So with the regional breakdown of the existing and also the net new paying client? And the second question is regarding the US market. Would you please share more color on the market strategy, and what's our competitive advantage compared to other peers in this market? Thank you.

Arthur Chen: For the breakdown of the new fund accounts in the third quarter, Hong Kong and Malaysia collectively contribute around 50% of total new fund accounts. In the third quarter, except for certain new markets or small markets we entered recently, such as Canada and New Zealand, the remaining markets' contributions are in the range of 5% to 15% for the third quarter. As of the end of the third quarter, the Greater China clients contribute around 46% of the group's account fund accounts, and the remaining overseas markets contribute 54% of total accounts. Thank you.

Daniel Yuan: Hi, Yu Fan. This is Daniel. I'll take your second question on our US business. As you mentioned, we saw very strong momentum in terms of new client accounts and also in terms of engagement of our existing clients, with the number of options traders and options contracts traded both logging double-digit sequential growth. I think that really thanks to our increasing brand influence. If you've been to New York recently, you'll see that we've launched another large-scale branding campaign in New York City in the heart of New York City. Another important factor is, obviously, we have a very superior product experience for our target clients. The US is probably the most competitive market in the world, but also unequivocally the largest brokerage market out there, which means that there's going to be diversified client needs to be satisfied by different players. We think that our product is built for the active traders, and those are the clients we want to serve, and we'll continue to optimize our product experience for that client focus.

Operator: Thank you. We will take our next question. Your next question comes from the line of Charles Zhou from UBS. Please go ahead. Your line is open.

Charles Zhou: Good morning. This is Charles Zhou from UBS. First of all, congratulations on your very good results. It's also a strong beat to the market consensus. I have two questions. My first question is about the Air Star Bank. Could you please share what investment have you made since Futu Holdings Limited acquired a 44% equity stake in Air Star Bank, I think, last June? And also, how do you see the Air Star Bank's strategic role within Futu Holdings Limited's business in terms of short-term, medium-term, and long-term perspectives? My second question is regarding the regional mix of the client AUM net inflow. Can you maybe just give us a little bit more color about the breakdown of the regional mix? Say, for example, does Hong Kong still account for over 70%? And also, are we seeing a rising share from high net worth clients in the third quarter? Thank you.

Arthur Chen: Regarding the breakdown of the net asset inflow by regions, actually, we see the percentage contributed by Hong Kong slightly decrease on a quarter-over-quarter basis, mainly due to certain overseas markets such as Singapore and Malaysia also recording very strong asset inflows. So proportion-wise, Hong Kong's percentage contribution was down a little bit. Regarding the client's cohort, we do see more and more high net worth clients' contributions in Hong Kong. We think this kind of trend will remain in the next coming quarters. We think we have very meaningful potential in terms of further upgrading our client's quality in Hong Kong through wealth management, etc. Thank you.

Daniel Yuan: Hi, Charles. This is Daniel. I'll take your first question on Air Star Bank. First of all, to give you an update on our investment, during the third quarter, upon regulatory approval and the discussion between the shareholders, we have increased our stake in Air Star Bank to 68.4%, thereby becoming the controlling shareholder of Air Star Bank. In the short term, we'll continue to focus on improving the customer experience, enriching products and capabilities. We believe that there are a lot of integration opportunities between the banking business and the brokerage. In the long term, we believe that the banking business can help Futu Holdings Limited increase client stickiness and improve client's wallet share. It will enable clients to complete fund deposits, investments, lending, and consumption. We can satisfy all these various financial needs within Futu Holdings Limited's ecosystem, and we can continue to enhance our clients' perception of Futu Holdings Limited as a one-stop financial services platform. So far, Futu Holdings Limited is the only online brokerage platform in Hong Kong that has integrated digital banking capabilities, and we believe that the scarcity of that license and the diversity of products and services we can offer under this license will continue to widen our competitive moat. After this

round of capital injection, Air Star Bank will be consolidated into Futu Holdings Limited's financial statements. In the next two to three years, we'll still be in investment mode for Air Star Bank, but we believe that as Futu Holdings Limited's client quality improves across various markets, and as more markets become profitable and play out that operating leverage, the drag from Air Star Bank's loss to Futu Holdings Limited's overall P&L; will be limited. After the capital injection, Futu Holdings Limited and Xiaomi Group will continue to work very closely and take advantage of each other's resources in their respective ecosystems to operate this bank together. Thank you.

Operator: We will take our next question. Your next question comes from the line of Chiyao Huang from Morgan Stanley. Please go ahead. Your line is open.

Chiyao Huang: I have two questions. One is about the product pipeline from crypto and tokenization in the next one or two quarters. And then maybe a bit longer term, what kind of value proposition do we try to achieve on tokenization for our clients? The second question is about whether management has any plan on M&A; in the space to accelerate capability building? What kind of capability in crypto are we looking to build in the near term? Thank you.

Arthur Chen: Regarding your two questions about crypto, number one for the new product pipelines and also tokenization, we do have a lot of preparations and internal discussions, even some layout of certain product connections. But as you can understand, tokenization is a very new concept to the market nowadays and subject to different regulatory regimes and examinations. So it is very difficult for us to lay out a very clear roadmap for the product launch given that a lot of factors will be regulatory dependent. Regarding M&A; in the crypto side, definitely, we are very open in these directions given that crypto is a very strategic and important consideration in our business direction down the road. So definitely, we will keep these options open. Thank you.

Operator: We will take our next question. Your next question comes from the line of Leon Key from CLSA. Please go ahead. Your line is open.

Leon Key: This is Leon Key from CLSA. I have two questions today. Firstly, we are very glad to see that Hong Kong for the fourth consecutive quarter has led new client additions. I'm just interested in the client profile of our newly acquired clients in Hong Kong for the past quarter and actually for the past four quarters in general, given Hong Kong's equity market started to become quite active since around four quarters ago. If there are any meaningful differences in terms of these new customers in Hong Kong in terms of per average AUM, ages, trading velocity, the products they are buying, if there are any notable differences for these new clients compared to our existing Hong Kong customers, most of which were acquired during probably the bull market a few years ago. So that's the first question on Hong Kong new customer profile. The second question, I'm interested in the gross margin trend in markets outside Hong Kong. We're very pleasantly surprised to see gross margin disclosed in the third quarter was very strong. Given we also have very good AUM growth in markets like Singapore and a lot of new clients in Malaysia, I presume the economy of scale is kicking in very rapidly. If possible, if management can share with us some gross margin trends in Singapore and Malaysia, where are the margins in these markets standing now?

Daniel Yuan: Leon, thank you for these two questions. This is Daniel. I'll take these two questions. First of all, regarding our Hong Kong business, in fact, in the third quarter, we have seen a continued upward trajectory in average client assets of our new clients. That coupled with the continuous net asset inflow, very robust net inflow from our existing clients led to a double-digit sequential growth in average client assets in Hong Kong. I think that is representative of what happened in the past couple of quarters as we continue to enhance our brand image. I think we can continue to attract more and more high-quality clients, and there will be more clients that are inclined to do one-stop asset allocation within Futu Holdings Limited's platform. In terms of these clients' behavior, trading behavior specifically, I think that's very much market-driven. As you know, in terms of our total trading volume in the past year or so, it's mostly US stocks. But in Q3 this year, as the Hong Kong equities market outperformed, a lot of our clients quickly flocked to Hong Kong equities and engaged quite actively. So I think this is very much driven by the performance and the relative outperformance of different equity markets. We think this is more cyclical than structural in terms of clients' trading behavior. To your second question, yes, we think that the online brokerage business inherently has huge operating leverage. But on the gross margin level, it's been very healthy across all of our markets because it mostly relates to trading and

margin products, all of which have very high margins. The operating leverage mostly kicks in from the operating expenses. As we continue to scale in a lot of these international markets, we have seen a very rapid expansion in operating leverage. Maybe to give you some numbers on our Singapore business, for a couple of consecutive months, we have seen the operating margin in our Singapore business consistently top 60%, and it's still expanding. I think that really speaks to the strong operating leverage in our business model.

Leon Key: Thanks a lot, Daniel. Very helpful.

Operator: Thank you. This concludes today's question and answer session. I'll now hand the call back to Daniel Yuan for closing remarks.

Daniel Yuan: That concludes our call today. On behalf of the Futu Holdings Limited management team, I'd like to thank you for joining us today. If you have any further questions, please do not hesitate to contact me or any of our investor relations representatives. Thank you, and goodbye.

Operator: This concludes today's conference call. Thank you for participating. You may now disconnect.