

## MarketAxess Holdings (MKTX)

**\$482.79** (As of 08/11/20)

Price Target (6-12 Months): **\$555.00**

Long Term: 6-12 Months

**Zacks Recommendation:** **Outperform**

(Since: 03/30/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**2-Buy**

Zacks Style Scores:

VGM:D

Value: F

Growth: B

Momentum: D

### Summary

MarketAxess Holdings' earnings per share of \$2.20 beat the Zacks Consensus Estimate by 3.29% and also soared 73% year over year. Better-than-expected results came on the back of high corporate bond trading volumes. The company's shares have outperformed the industry in a year's time. Its revenues have been increasing over the years on the back of a steady rise in trading volumes. Its organic growth strategies continue to drive its top line. Its solid international business provides geographical diversification. It enjoys strong liquidity and witnessed continuous growth in free cash flows. The company's strong balance sheet enabled it to enhance shareholders' value via dividends and share buybacks. However, rising costs remain a concern.

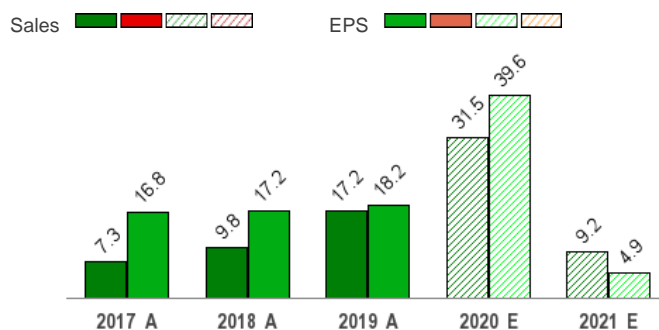
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$561.68 - \$275.50
20 Day Average Volume (sh)	198,643
Market Cap	\$18.3 B
YTD Price Change	27.4%
Beta	0.62
Dividend / Div Yld	\$2.40 / 0.5%
Industry	<a href="#">Securities and Exchanges</a>
Zacks Industry Rank	Bottom 8% (233 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.3%
Last Sales Surprise	-0.2%
EPS F1 Est- 4 week change	1.1%
Expected Report Date	10/28/2020
Earnings ESP	-1.2%
P/E TTM	70.0
P/E F1	64.0
PEG F1	12.8
P/S TTM	29.8

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	186 E	188 E	179 E	178 E	734 E
2020	169 A	185 A	160 E	158 E	672 E
2019	124 A	125 A	132 A	130 A	511 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$2.02 E	\$1.99 E	\$1.91 E	\$1.89 E	\$7.91 E
2020	\$1.96 A	\$2.20 A	\$1.71 E	\$1.66 E	\$7.54 E
2019	\$1.39 A	\$1.27 A	\$1.42 A	\$1.32 A	\$5.40 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/11/2020. The reports text is as of 08/12/2020.

## Overview

Based in New York, and incorporated in 2000, MarketAxess Holdings Inc. is a leading multi-dealer trading platform that offers institutional investors access to global liquidity in products like U.S. high-grade corporate bonds, emerging markets and high-yield bonds, European bonds, U.S. agency bonds, credit derivatives and other fixed-income securities.

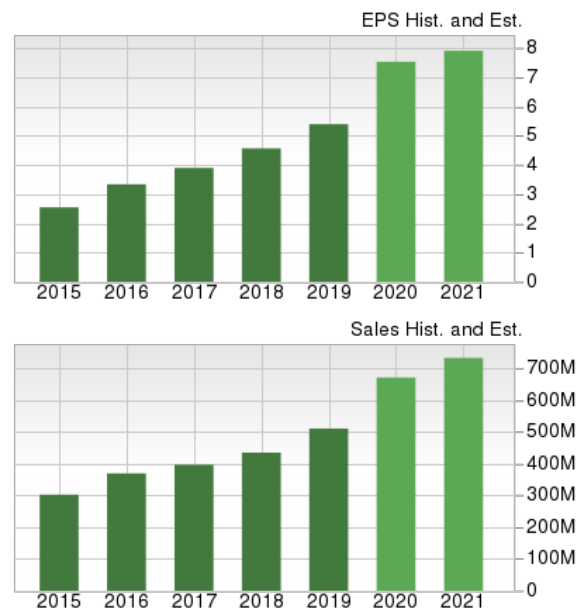
MarketAxess derives its operating revenues from commissions (91% of total revenue in 2019), and post-trade services (3%) and post-trade services (6%).

The company, having an estimated 85% electronic market share in U.S. high-grade and high-yield bond trading, has a global network of investors, dealers, and alternative market makers which continues to expand both domestically and internationally. It has over 1,700 firms active on the platform globally. It currently has 830 active international client firms, up 11.6% year over year.

It also offers a number of trading-related products and services, including Composite pricing and other market data products to assist clients with trading decisions; auto-execution and other execution services for clients requiring specialized workflow solutions; connectivity solutions that facilitate straight-through processing; and technology services to optimize trading environments. Through its Trax division, it also offers a range of pre- and post-trade services, including trade matching, trade publication, regulatory transaction reporting and market and reference data across a range of fixed-income and other products.

The company entered the U.S. Treasury market in 2019 through the acquisition of LiquidityEdge LLC ("LiquidityEdge"). It provides innovative custom liquidity pools, as well as direct dealer streaming capabilities, for on- and off-the-run U.S. Treasuries offer a bespoke trading ecosystem to connect a community of dealers, market-makers and institutional investors to trade in the \$593.6 billion average-daily-volume U.S. Treasury market.

In addition, the company entered into a partnership with Virtu Financial, Inc. in April 2019 to provide institutions with enhanced trading tools and access to global exchange-traded funds (ETFs) and fixed income securities.



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## Reasons To Buy:

- ▲ **Growing Top Line:** The company's revenues have been consistently growing since 2005 (except 2008 when revenues declined by just 0.6%). Revenues have witnessed a CAGR of 14% from 2015-2019 and was up 42% in the first half of 2020. This top-line growth was primarily driven by persistent increase in commission (which forms the lion's share of total revenues) received on trading volumes and the inclusion of treasury trading commissions. The company has been successful in increasing its trading volumes by way of inorganic and organic strategies. Its efforts of pursuing international opportunities, a compelling economic market model and a diversified product suite of the highly demanded U.S. high-grade floating rate and other credit bonds to broaden the scope of volume growth for MarketAxess, going forward, which will further drive commission revenues.
- ▲ **Selective Acquisitions and Strategic Alliances:** The company supplements its organic growth by entering into strategic alliances, or by acquiring businesses or technologies that enables it to enter new markets, provide new products or services. Some of the notable deals to this end are – acquisition of Xtrakter Limited, which provided the company with an expanded set of technology solutions; a strategic alliance with BlackRock, Inc., which improved the range of trading connections available to global credit market participants, and agreement with S&P Dow Jones Indices to jointly develop indices that will track the most liquid segments of the U.S. corporate bond market. The company recently acquired LiquidityEdge, a leading U.S. treasuries trading venue. This acquisition brings streaming treasury liquidity and trading capabilities to MarketAxess. We remain impressed with the company's inorganic growth, which has also aided its top line.
- ▲ **Growing International Business:** International business has been strong over the years and experienced another quarter of rapid growth. MiFID II continues to have a positive impact on client-training behavior, leading to an increase in volume with European clients, which further drives Eurobond volumes. Increase in emerging market volume is also impressive. International client volumes also expanded 39% year over year in 2019. The company's growing international business will aid overall revenues.
- ▲ **Financial Strength:** MarketAxess enjoys strong liquidity position, witnessed continuous growth in free cash flow, over the past many years, which was up further 61% in the first half of 2020. Its strong liquidity not only mitigates balance-sheet risks, but also paves the way for an accelerated capital deployment in employees, trading platform, new products, geographic expansion and infrastructure. The company remains focused on enhancing shareholders' value through share repurchase and dividend hikes. This year, the company raised the dividend by 18%, marking the increase in the dividends for the 11th consecutive year. We believe, the company's strong financial flexibility will continue to support it in enhancing shareholders' value. The company's debt position looks strong with no bank debt left outstanding. Also, its debt is 11.1% of its equity as of Jun 30, 2020, down from 12.07% as on Mar 31, 2020, and way lower than the industry's average of 31.3%. Moreover, its long-term debt of \$95 million is way lower than cash and cash equivalents of \$536 million, which gives the company enough financial flexibility to service its debt obligations.
- ▲ **Increase in Debt Trading:** The company saw an improvement in credit trading conditions in the past month (April 2020), partly owing to the liquidity programs launched by the Fed and other central banks. Corporations rushed to issue more debt as markets began to stabilize in late March, leading to a record \$480 billion of new high grade debt in the first quarter. Many companies also tapped their bank credit lines to improve their liquidity position. The debt issuance is likely to continue growing in both the private and public sectors, leading to even greater secondary trading opportunities for the company.
- ▲ **Strong ROE:** Further, MarketAxess's trailing 12-month return on equity (ROE) reinforces its growth potential. The company's ROE of 33.8%, which has improved over the past four years, remains higher than the ROE of 12.3% for the industry, reflecting tactical efficiency in using shareholder's funds.
- ▲ **Share Price Performance:** Shares of MarketAxess have outperformed its industry, in a year's time. Moreover, the company's progress on its fundamentals will further help its stock price in the coming quarters.

Growing revenues, acquisitions, strong financial position, expanding international business will drive long-term growth.

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## Risks

- **Escalating Costs:** While MarketAxess' growth strategy has led to noticeable top and bottom-line growth, escalating costs remain a significant headwind. Total expenses increased 15% on average from 2013-2019, thereby weighing on the company's margins. We estimate the company's expenses to rise over the coming quarters given its ongoing investments in several areas including trading platform, new protocols and infrastructure as well as headcount additions. Notably, for 2020, the company anticipates total expenses to lie between \$297 million and \$314 million. This represents a rise of 17.3% (calculated at the mid-point) year over year.
  - **Pressure on Investment Income:** Due to the low interest rate environment, the company's net investment income took a hit. The same was down 51% year over year. Given that the interest rates are likely to stay at modest levels in the foreseeable future, we expect net investment income to remain under pressure.
  - **Valuation:** MarketAxess's valuation looks stretched and expensive at the current level. Looking at the company's price-to-earnings (P/E) ratio, investors may not want to pay any further premium. It currently has a trailing 12-month P/E ratio of 62.2, higher than the industry average of 24.2.
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## Last Earnings Report

### MarketAxess Q2 Earnings Beat Estimates

MarketAxess Holdings Inc.'s second-quarter 2020 earnings per share of \$2.20 beat the Zacks Consensus Estimate by 3.29% and also soared 73% year over year.

Better-than-expected results came on the back of high corporate bond trading volumes, driven by a record corporate bond new issuance and an elevated credit spread volatility.

**Quarter Ending** **06/2020**

Report Date	<b>Jul 22, 2020</b>
Sales Surprise	<b>-0.20%</b>
EPS Surprise	<b>3.29%</b>
Quarterly EPS	<b>2.20</b>
Annual EPS (TTM)	<b>6.90</b>

### Operational Update

Revenues of \$184.8 million came in line with the Zacks Consensus Estimate and also surged 48% year over year. Commission revenues jumped 51% year over year to \$172 million.

All other revenues, comprising information services, post-trade services and other revenues improved 12% to \$12.7 million.

Total trading volumes expanded 44.4% year over year to \$741.8 billion.

Total expenses at MarketAxess were up 25% from the prior-year quarter to \$80.7 million. This rise was due to escalated employee compensation and benefit cost, headcount, technology and communication costs, and clearing costs.

Operating income of \$104 million ascended 71% year over year owing to strength in revenues, partly offset by elevated costs.

Operating margin of 56.4% grew 790 basis points year over year.

### Financial Update

Total assets were \$1.04 billion as of Jun 30, 2020, up 8.8% from the level as of Dec 31, 2019.

Total cash, cash equivalents and investments as of Jun 30, 2020 were \$404.8 million, up 49.6% from the level at 2019 end.

During the quarter, the company generated free cash flow of \$86.78 million, up 51.4% year over year.

### Share Repurchase and Dividend Update

MarketAxess bought back shares worth \$5.9 million in the second quarter.

The company's board of directors declared a quarterly cash dividend of 60 cents per share, to be paid out on Aug 19, 2020 to its stockholders of record as of Aug 5.

## Recent News

### MarketAxess Reports Strong June Volume Statistics – Jul 7, 2020

The company reported total monthly trading volume of \$578.5 billion for June 2020, reflected a whopping improvement of 216.4% year over year. The company reported average daily volume (ADV) of \$26.3 billion, surging 187.6% year over year. This upsurge can be attributed to robust volumes across the company's product lines.

### MarketAxess Announces Monthly Volume Statistics for May 2020 – Jun 2, 2020

The company has announced total monthly trading volume for May 2020 of \$519.7 billion, consisting of \$229.3 billion in other credit volume and \$290.5 billion in rates volume.

### MarketAxess Acquires LiquidityEdge – Nov 4, 2019

The company has completed the acquisition of LiquidityEdge, a leading provider of an electronic U.S. Treasuries marketplace. The acquisition supports the further expansion of MarketAxess' Treasury hedging capabilities, with the first phase of these enhancements set to launch in the coming weeks.

## Valuation

MarketAxess' shares are up 27.3% in the year-to-date period and up 31.5% over the trailing 12-month period. Stocks in the Zacks sub-industry were up 0.1% but in the sector are down by 19.6% in the year-to-date period. Over the past year, the Zacks sub-industry and the sector are down 1.5% and 6.6%, respectively.

The S&P 500 index is up 3.3% in the year-to-date period and up 14.1% in the past year.

The stock is currently trading at 62.15x forward 12-month earnings value, which compares to 24.52x for the Zacks sub-industry, 16.83x for the Zacks sector and 22.8x for the S&P 500 index.

Over the past five years, the stock has traded as high as 74.83x and as low as 28.78x, with a 5-year median of 42.51x. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$555 price target reflects 71.5x forward earnings.

The table below shows summary valuation data for MKTX

Valuation Multiples - MKTX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	62.15	24.52	16.83	22.8
	5-Year High	74.83	27.47	16.83	22.8
	5-Year Low	28.78	18.49	11.59	15.25
	5-Year Median	42.51	22.14	14.26	17.58
P/S F12M	Current	25.81	11.59	6.22	3.67
	5-Year High	30.47	12.94	6.66	3.67
	5-Year Low	9.4	7.27	4.96	2.53
	5-Year Median	16.16	10.43	6.06	3.05
P/B TTM	Current	23.47	3.36	2.48	4.68
	5-Year High	24.76	3.54	2.91	4.56
	5-Year Low	8.67	1.81	1.71	2.83
	5-Year Median	14.17	2.65	2.53	3.7

As of 08/11/2020

## Industry Analysis Zacks Industry Rank: Bottom 8% (233 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Aflac Incorporated (AFL)	Neutral	3
AMERISAFE, Inc. (AMSF)	Neutral	3
Cboe Global Markets, Inc. (CBOE)	Neutral	4
Fidelity National Information Services, Inc. (FIS)	Neutral	3
Intercontinental Exchange Inc. (ICE)	Neutral	4
Moodys Corporation (MCO)	Neutral	3
Nasdaq, Inc. (NDAQ)	Neutral	3
CME Group Inc. (CME)	Underperform	5

Industry Comparison Industry: Securities And Exchanges				Industry Peers		
	MKTX	X Industry	S&P 500	AFL	CBOE	ICE
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	2	-	-	3	4	4
VGM Score	D	-	-	B	B	C
Market Cap	18.33 B	21.43 B	23.61 B	27.11 B	9.66 B	53.57 B
# of Analysts	5	7	14	6	7	7
Dividend Yield	0.50%	1.50%	1.69%	2.94%	1.62%	1.22%
Value Score	F	-	-	A	D	D
Cash/Price	0.03	0.04	0.07	0.21	0.04	0.03
EV/EBITDA	61.68	17.84	13.32	4.93	14.15	17.41
PEG Ratio	13.04	2.86	2.95	1.65	6.07	2.62
Price/Book (P/B)	21.48	3.72	3.22	0.92	2.94	3.15
Price/Cash Flow (P/CF)	76.78	20.67	12.79	6.07	13.71	19.23
P/E (F1)	65.20	23.88	22.02	8.24	16.99	22.32
Price/Sales (P/S)	29.80	7.23	2.57	1.25	3.15	7.23
Earnings Yield	1.56%	4.19%	4.29%	12.15%	5.89%	4.48%
Debt/Equity	0.11	0.22	0.77	0.26	0.31	0.47
Cash Flow (\$/share)	6.29	6.22	6.94	6.26	6.48	5.13
Growth Score	B	-	-	D	A	C
Hist. EPS Growth (3-5 yrs)	20.79%	14.94%	10.41%	9.90%	23.03%	13.26%
Proj. EPS Growth (F1/F0)	39.59%	12.58%	-6.51%	3.98%	10.51%	13.88%
Curr. Cash Flow Growth	21.24%	5.26%	5.22%	2.80%	-6.75%	7.25%
Hist. Cash Flow Growth (3-5 yrs)	20.85%	18.37%	8.55%	10.44%	25.08%	15.62%
Current Ratio	7.42	1.07	1.34	0.07	1.57	1.01
Debt/Capital	9.99%	17.40%	44.59%	20.90%	23.44%	32.20%
Net Margin	42.74%	29.01%	10.13%	13.50%	15.07%	29.01%
Return on Equity	33.75%	18.23%	14.59%	11.98%	18.23%	14.18%
Sales/Assets	0.64	0.35	0.51	0.14	0.59	0.07
Proj. Sales Growth (F1/F0)	31.48%	8.65%	-1.45%	-2.46%	9.68%	9.14%
Momentum Score	D	-	-	B	C	A
Daily Price Chg	0.02%	0.02%	-0.17%	1.49%	3.83%	-0.55%
1 Week Price Chg	-1.65%	0.58%	2.30%	2.67%	0.41%	4.32%
4 Week Price Chg	-7.55%	1.55%	6.41%	6.68%	-1.98%	7.51%
12 Week Price Chg	0.88%	5.26%	15.42%	13.08%	-10.23%	6.08%
52 Week Price Chg	31.54%	7.17%	2.88%	-28.14%	-26.43%	7.17%
20 Day Average Volume	198,643	709,947	2,007,486	3,187,524	790,621	3,028,777
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.03%
(F1) EPS Est 4 week change	1.10%	0.00%	1.84%	6.83%	-0.79%	-0.61%
(F1) EPS Est 12 week change	8.30%	-1.32%	2.40%	6.53%	-1.32%	-1.56%
(Q1) EPS Est Mthly Chg	-0.35%	-0.35%	0.72%	5.98%	-4.22%	-2.02%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	B
Momentum Score	D
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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### Disclosures

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