

MarketAxess Holdings (MKTX)

\$370.40 (As of 01/22/20)

Price Target (6-12 Months): **\$389.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 12/04/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

Growth: B

Momentum: F

Summary

MarketAxess Holdings' shares have outperformed its industry, year to date. Its revenues have been increasing over the years on the back of steady increase in trading volumes that in turn drives commission. Its inorganic growth strategies such as acquisitions and alliances are impressive. The company recently acquired LiquidityEdge, a leading U.S. treasuries trading venue. This acquisition brings streaming treasury liquidity and trading capabilities to MarketAxess. Its solid international business provides geographical diversification. Its strong balance sheet has enabled payout of dividend and share buyback. The company's high return on equity makes it an attractive stock. However, rising costs remain a concern, given its ongoing investments in several areas including trading platform, new protocols and infrastructure.

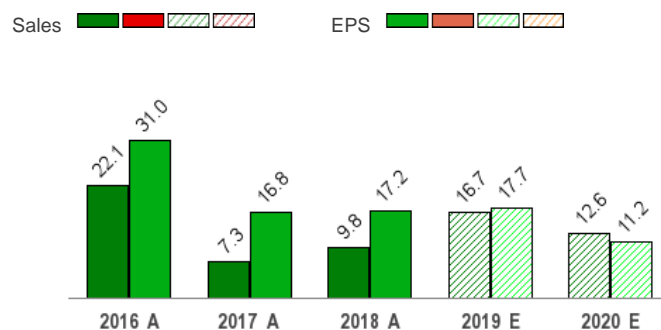
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$421.45 - \$207.16
20 Day Average Volume (sh)	219,823
Market Cap	\$14.0 B
YTD Price Change	-2.3%
Beta	0.17
Dividend / Div Yld	\$2.04 / 0.6%
Industry	Securities and Exchanges
Zacks Industry Rank	Bottom 18% (209 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.4%
Last Sales Surprise	0.1%
EPS F1 Est- 4 week change	-2.2%
Expected Report Date	01/29/2020
Earnings ESP	0.0%
P/E TTM	70.0
P/E F1	61.9
PEG F1	12.4
P/S TTM	28.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	143 E	142 E	143 E	144 E	573 E
2019	124 A	125 A	132 A	127 E	509 E
2018	115 A	107 A	101 A	112 A	436 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.53 E	\$1.47 E	\$1.49 E	\$1.48 E	\$5.98 E
2019	\$1.39 A	\$1.27 A	\$1.42 A	\$1.30 E	\$5.38 E
2018	\$1.27 A	\$1.07 A	\$1.02 A	\$1.21 A	\$4.57 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 01/22/2020. The reports text is as of 01/23/2020.

Overview

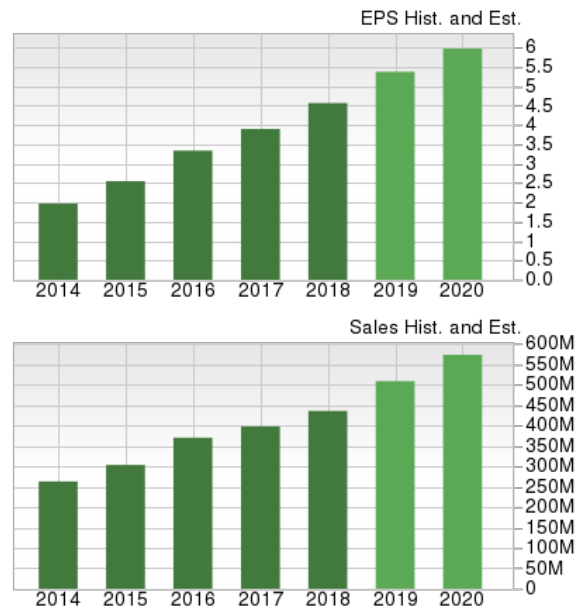
Based in New York, and incorporated in 2000, MarketAxess Holdings Inc. is a leading multi-dealer trading platform that offers institutional investors access to global liquidity in products like U.S. high-grade corporate bonds, emerging markets and high-yield bonds, European bonds, U.S. agency bonds,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

MarketAxess derives its operating revenues from commissions (90% of total revenue in 2018), information and post-trade services (6%), and investment income and other revenues (4%).

The company operates a leading electronic trading platform that enables fixed-income market participants to efficiently trade corporate bonds and other types of fixed-income instruments using its patented trading technology.

Over 1,500 institutional investor and broker-dealer firms are active users of its trading platform, accessing global liquidity in U.S. high-grade corporate bonds, emerging markets and high-yield bonds, European bonds, U.S. agency bonds, municipal bonds, leveraged loans, credit default swaps and other fixed-income securities. Through its Open Trading protocols, it executes bond trades between and among institutional investor and broker-dealer clients in an all-to-all anonymous trading environment in which MarketAxess acts as the matched principal counterparty.

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.



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 14.6% from 2012-2018. The same was up further 18% in the first nine months of 2019. 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. 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.

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

▲ **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 40% year over year in the first nine months of 2019. The company's growing international business will aid overall revenues.

▲ **Financial Strength:** MarketAxess enjoys strong liquidity position, witnessed by a five-year (2014-2018) free cash flow CAGR of 19%. 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. Recently in 2019, the company raised the dividend by 21.4%, marking the increase in the dividends for the 10th consecutive year. We believe that absence of long-term debt and no acquisition on the horizon will continue to support the company in enhancing shareholders' value.

▲ **Strong ROE:** Further, MarketAxess's trailing 12-month return on equity (ROE) reinforces its growth potential. The company's ROE of 31%, which has improved over the past four years, remains higher than the ROE of 12% for the industry, reflecting tactical efficiency in using shareholder's funds.

▲ **Share Price Performance:** Shares of MarketAxess have outperformed its industry, year to date. Moreover, the company's progress on its fundamentals will further help its stock price in the coming quarters.

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 13% on average from 2013-2018, thereby weighing on the company's margins. The same was further up 16.4% in the first nine months of 2019. 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 2019, the company anticipates total expenses to be near the high end of the earlier forecasted range of \$244-\$256 million.
 - **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 57.1, higher than the industry average of 24.8.
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Last Earnings Report

MarketAxess Beats Q3 Earnings & Revenue Estimates

MarketAxess Holdings third-quarter 2019 earnings per share of \$1.42 beat the Zacks Consensus Estimate by 5.2% and grew 39% year over year.
Better-than-expected results were driven by increased trading volumes.

Operational Update

Revenues of \$131.6 million beat the Zacks Consensus Estimate by 2.8% and were up 30% year over year. Commission revenues increased 32.4% year over year to \$119.9 million.

All other revenues, which comprise information services, post-trade services and other revenues, increased 7.3% to \$11.7 million.

Total trading volumes increased 37% year over year to \$528.7 billion.

Total expenses at MarketAxess increased 19.3% from the prior-year quarter to \$65.6 million. This rise was due to higher employee compensation and benefit cost, headcount, technology and communication costs, professional and consulting fees, general and administrative costs, and clearing costs.

The effective tax rate was 19.8% in the third quarter, marginally up from 19.3% in the year-ago quarter.

Operating income of \$66 million increased 42% year over year.

Financial Update

Total assets were \$855 million as of Sep 30, 2019, up 23% from year-end 2018 level.

Total cash, cash equivalents and investments were \$556 million, up 14.4% from year-end 2018 level.

During the quarter, the company generated free cash flow of \$67.7 million, up 42% year over year.

Share Repurchase and Dividend Update

MarketAxess bought back shares worth \$2.8 million in the third quarter.

The company's board of directors declared a quarterly cash dividend of 51 cents per share. The same will be paid out on Nov 20, 2019 to stockholders of record as of the close of business on Nov 6, 2019.

2019 Guidance

MarketAxess reaffirmed its 2019 expense guidance range at \$244.0 million to \$256.0 million. The expense guidance range excludes any post-acquisition impact of the LiquidityEdge transaction. The company is reconfirming its 2019 overall effective tax rate at 20.5% to 22.5%

The company updated its 2019 capital expenditure guidance range at \$31.0 million to \$33.0 million from \$25.0 million to \$30.0 million.

Quarter Ending 09/2019

Report Date	Oct 23, 2019
Sales Surprise	0.14%
EPS Surprise	1.43%
Quarterly EPS	1.42
Annual EPS (TTM)	5.29

Recent News

MarketAxess Announces Monthly Volume Statistics for December 2019 - Jan 6, 2020

The company has announced total monthly trading volume for December 2019 of \$466.9 billion, consisting of \$80.2 billion in U.S. high-grade volume, \$70.6 billion in other credit volume, and \$316.2 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 69.3% over the trailing 12-month period. Over the past year, the Zacks sub-industry and the sector are up 22.8% and 12%, respectively.

The S&P 500 index is up 24.9% in the past year.

The stock is currently trading at 60.95X forward 12-month price to earnings value, which compares to 26.21X for the Zacks sub-industry, 14.68X for the Zacks sector and 19.14X for the S&P 500 index.

Over the past five years, the stock has traded as high as 73.92X and as low as 28.78X, with a 5-year median of 41.38X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$389 price target reflects 63.99X price to earnings.

The table below shows summary valuation data for MKTX

Valuation Multiples - MKTX					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	60.95	26.21	14.68	19.14
	5-Year High	73.92	27.47	16.21	19.33
	5-Year Low	28.78	18.49	12.01	15.16
	5-Year Median	41.54	21.57	13.98	17.43
P/S F12M	Current	24.62	12.17	6.56	3.37
	5-Year High	29.74	12.94	6.61	3.41
	5-Year Low	8.4	7.27	5.2	2.54
	5-Year Median	15.58	9.58	6.03	3
P/B TTM	Current	20.47	3.25	2.83	4.39
	5-Year High	23.92	3.48	2.89	4.39
	5-Year Low	7.57	1.72	1.83	2.85
	5-Year Median	13.78	2.5	2.5	3.6

As of 01/22/2020

Industry Analysis Zacks Industry Rank: Bottom 18% (209 out of 255)



Top Peers

Aflac Incorporated (AFL)	Neutral
AMERISAFE, Inc. (AMSF)	Neutral
Cboe Global Markets, Inc. (CBOE)	Neutral
CME Group Inc. (CME)	Neutral
Fidelity National Information Services, Inc. (FIS)	Neutral
Intercontinental Exchange Inc. (ICE)	Neutral
Moodys Corporation (MCO)	Neutral
Nasdaq, Inc. (NDAQ)	Neutral

Industry Comparison Industry: Securities And Exchanges				Industry Peers		
	MKTX Neutral	X Industry	S&P 500	AFL Neutral	CBOE Neutral	ICE Neutral
VGM Score	F	-	-	B	D	F
Market Cap	13.99 B	17.97 B	24.65 B	38.56 B	13.15 B	53.70 B
# of Analysts	5	6	13	7	7	7
Dividend Yield	0.55%	1.21%	1.77%	2.06%	1.21%	1.14%
Value Score	F	-	-	B	F	F
Cash/Price	0.04	0.02	0.04	0.11	0.01	0.03
EV/EBITDA	56.10	17.30	13.98	7.44	17.03	17.58
PEG Ratio	12.34	2.71	2.05	2.81	4.08	2.71
Price/Book (P/B)	20.14	3.95	3.38	1.31	3.95	3.12
Price/Cash Flow (P/CF)	71.07	20.63	13.60	8.94	17.30	20.63
P/E (F1)	61.68	24.04	19.07	11.80	24.12	23.12
Price/Sales (P/S)	28.32	8.19	2.69	1.77	4.97	8.19
Earnings Yield	1.61%	4.14%	5.24%	8.47%	4.14%	4.32%
Debt/Equity	0.13	0.21	0.72	0.21	0.27	0.39
Cash Flow (\$/share)	5.21	5.21	6.94	5.87	6.86	4.68
Growth Score	B	-	-	D	B	C
Hist. EPS Growth (3-5 yrs)	21.53%	14.53%	10.60%	8.79%	22.02%	14.53%
Proj. EPS Growth (F1/F0)	11.12%	9.13%	7.53%	0.80%	6.03%	7.47%
Curr. Cash Flow Growth	16.86%	16.86%	13.90%	16.19%	36.56%	16.44%
Hist. Cash Flow Growth (3-5 yrs)	19.14%	17.35%	9.00%	9.14%	29.42%	27.35%
Current Ratio	9.47	1.03	1.22	0.05	2.46	1.00
Debt/Capital	11.70%	17.09%	42.99%	17.47%	21.55%	28.51%
Net Margin	40.58%	29.06%	11.21%	13.96%	16.08%	31.97%
Return on Equity	30.89%	17.21%	17.16%	12.45%	17.21%	12.79%
Sales/Assets	0.63	0.30	0.55	0.15	0.51	0.07
Proj. Sales Growth (F1/F0)	12.64%	6.04%	4.08%	-1.39%	5.70%	6.04%
Momentum Score	F	-	-	C	D	F
Daily Price Chg	-0.08%	0.30%	-0.04%	-0.59%	1.13%	-0.34%
1 Week Price Chg	1.65%	1.65%	2.29%	2.59%	0.59%	2.67%
4 Week Price Chg	-0.98%	2.03%	2.05%	-0.44%	-0.21%	4.60%
12 Week Price Chg	3.13%	3.13%	6.92%	-1.56%	1.78%	3.49%
52 Week Price Chg	68.51%	26.78%	21.50%	10.26%	20.88%	26.78%
20 Day Average Volume	219,823	550,403	1,518,423	2,585,511	554,835	2,129,750
(F1) EPS Est 1 week change	-1.03%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.15%	-1.05%	0.00%	0.15%	-1.25%	-1.07%
(F1) EPS Est 12 week change	-3.95%	-1.68%	-0.23%	-0.65%	-3.77%	-1.46%
(Q1) EPS Est Mthly Chg	-0.07%	-0.08%	0.00%	0.00%	-0.79%	-0.10%

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.

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	F
VGM Score	F

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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