

MarketAxess Holdings (MKTX)

\$340.09 (As of 02/21/20)

Price Target (6-12 Months): **\$357.00**

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:C

Value: F

Growth: B

Momentum: A

Summary

MarketAxess Holdings' earnings per share of \$1.32 beat the Zacks Consensus Estimate by 1.5% and grew 9.1% year over year. Its shares have outperformed the industry year to date. Its revenues have been increasing over the years on the back of steady increase in trading volumes that in turn drive commission. Its inorganic growth strategies such as acquisitions and alliances are impressive. The company recently acquired LiquidityEdge, a leading U.S. treasuries trading venue. 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.

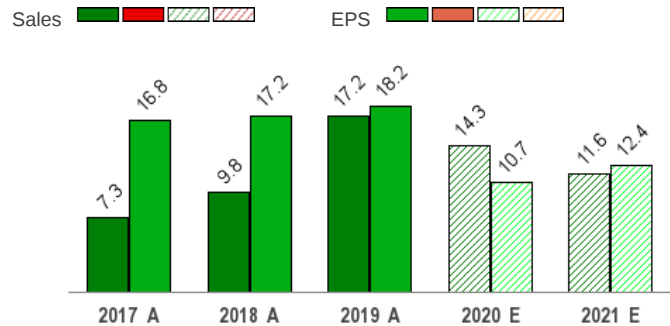
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$421.45 - \$222.31
20 Day Average Volume (sh)	268,248
Market Cap	\$12.9 B
YTD Price Change	-10.3%
Beta	0.20
Dividend / Div Yld	\$2.40 / 0.7%
Industry	Securities and Exchanges
Zacks Industry Rank	Bottom 22% (200 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.5%
Last Sales Surprise	2.2%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	NA
Earnings ESP	0.7%
P/E TTM	63.0
P/E F1	56.9
PEG F1	11.4
P/S TTM	25.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	164 E	160 E	163 E	161 E	652 E
2020	146 E	145 E	145 E	147 E	584 E
2019	124 A	125 A	132 A	130 A	511 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.72 E	\$1.64 E	\$1.70 E	\$1.64 E	\$6.72 E
2020	\$1.54 E	\$1.47 E	\$1.48 E	\$1.48 E	\$5.98 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 02/21/2020. The reports text is as of 02/24/2020.

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.

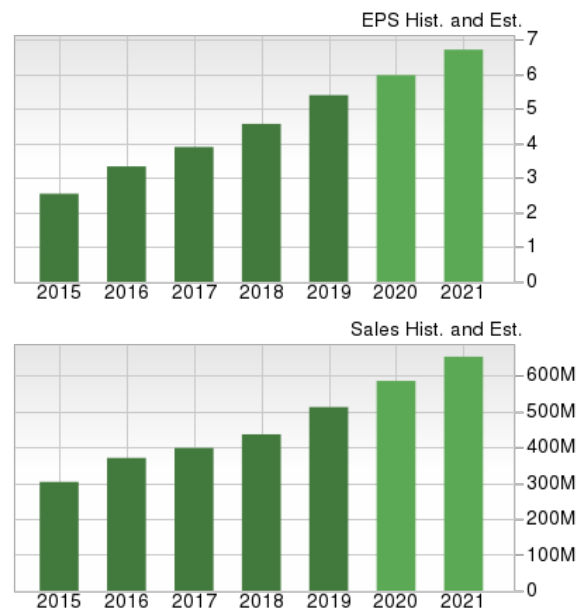
MarketAxess derives its operating revenues from commissions (91% of total revenue in 2019), and post-trade services (3%) and post-trade services (6%).

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.



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. 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 39% year over year in 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%. It was up further 29.5% in 2019. 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. In 2019, the company raised the dividend by 21.4%, marking the increase in the dividends for the 10th consecutive year. We believe the company's strong financial flexibility will continue to support it 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 30%, which has improved over the past four years, remains higher than the ROE of 11% 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.

Reasons To Sell:

▼ **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.

Increasing expenses weigh on margins, high valuation makes the stock look unattractive.

▼ **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 55.9, higher than the industry average of 25.8.

Last Earnings Report

MarketAxess Q4 Earnings & Revenues Beat Estimates

MarketAxess Holdings' earnings per share of \$1.32 beat the Zacks Consensus Estimate by 1.5% and grew 9.1% year over year.

Operational Update

Revenues of \$129.8 million beat the Zacks Consensus Estimate by 2.2% and were up 15.9% year over year. Commission revenues increased 15.4% year over year to \$117.1 million.

All other revenues, which comprise information services, post-trade services and other revenues, increased 15.5% to \$12.7 million.

Total trading volumes increased 14.4% year over year to \$489.5 billion.

Total expenses at MarketAxess increased 17.9% from the prior-year quarter to \$68.9 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 18.9% in the fourth quarter, up from 18.3% in the year-ago quarter.

Operating income of \$60.9 million increased 12.8% year over year.

Financial Update

Total assets were \$954.9 million as of Dec 31, 2019, up 37.3% year over year.

Total cash, cash equivalents and investments were \$500.6 million, up 2.8% from year-end 2018 level.

During the quarter, the company generated free cash flow of \$72.6 million, up 18.3% year over year.

Share Repurchase and Dividend Update

MarketAxess bought back shares worth \$5.8 million in the fourth quarter.

The company's board of directors declared a quarterly cash dividend of 60 cents per share, which represented an 18% increase. The same will be paid out on Feb 26, 2020 to stockholders of record as of the close of business on Feb 12, 2020.

2020 Guidance

Expenses are expected in the range of \$297 million to \$314 million and include a full year of LiquidityEdge expenses estimated between \$18 million and \$22 million. The company anticipates overall effective tax rate between 20% and 22%

The company provided capital expenditure guidance range between \$44 million and \$49 million.

Quarter Ending 12/2019

Report Date	Jan 29, 2020
Sales Surprise	2.24%
EPS Surprise	1.54%
Quarterly EPS	1.32
Annual EPS (TTM)	5.40

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 55.85X forward 12-month price to earnings value, which compares to 25.87X for the Zacks sub-industry, 14.89X for the Zacks sector and 19.09X 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 41.72X. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$357 price target reflects 58.64X 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	55.85	25.87	14.89	19.09
	5-Year High	73.92	27.47	16.21	19.34
	5-Year Low	28.78	18.49	12.01	15.18
	5-Year Median	41.72	21.68	14.15	17.47
P/S F12M	Current	21.71	12.23	6.55	3.51
	5-Year High	29.74	12.94	6.65	3.51
	5-Year Low	9.4	7.27	5.39	2.54
	5-Year Median	15.72	9.69	6.04	3
P/B TTM	Current	16.68	3.34	2.84	4.83
	5-Year High	23.92	3.49	2.89	4.9
	5-Year Low	8.67	1.81	1.83	2.85
	5-Year Median	13.95	2.55	2.51	3.62

As of 02/21/2020

Industry Analysis Zacks Industry Rank: Bottom 22% (200 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	C	-	-	B	D	C
Market Cap	12.90 B	18.97 B	24.03 B	37.82 B	13.58 B	52.44 B
# of Analysts	5	6.5	13	8	7	7
Dividend Yield	0.71%	1.17%	1.76%	2.17%	1.17%	1.16%
Value Score	F	-	-	B	F	F
Cash/Price	0.04	0.03	0.04	0.11	0.02	0.03
EV/EBITDA	51.81	17.40	14.08	7.37	17.40	16.39
PEG Ratio	11.40	2.65	2.08	3.41	3.21	2.65
Price/Book (P/B)	16.75	4.05	3.29	1.31	4.05	3.03
Price/Cash Flow (P/CF)	54.08	19.26	13.42	8.77	19.26	18.47
P/E (F1)	56.98	24.04	19.00	11.57	25.06	22.62
Price/Sales (P/S)	25.22	8.01	2.64	1.70	5.44	8.01
Earnings Yield	1.76%	4.14%	5.26%	8.64%	3.99%	4.42%
Debt/Equity	0.13	0.27	0.70	0.23	0.27	0.32
Cash Flow (\$/share)	6.29	6.22	7.03	5.87	6.37	5.13
Growth Score	B	-	-	D	C	C
Hist. EPS Growth (3-5 yrs)	20.57%	13.74%	10.84%	9.43%	22.48%	13.74%
Proj. EPS Growth (F1/F0)	10.74%	9.61%	7.09%	0.28%	3.44%	7.95%
Curr. Cash Flow Growth	21.24%	7.25%	6.72%	16.19%	-8.40%	7.25%
Hist. Cash Flow Growth (3-5 yrs)	20.25%	15.93%	8.25%	9.14%	24.64%	15.62%
Current Ratio	6.83	1.03	1.22	0.05	2.16	0.99
Debt/Capital	11.29%	21.41%	42.37%	18.49%	21.41%	24.50%
Net Margin	40.07%	29.52%	11.56%	14.81%	14.99%	29.52%
Return on Equity	29.72%	15.96%	16.80%	11.76%	15.96%	12.77%
Sales/Assets	0.60	0.31	0.55	0.15	0.48	0.07
Proj. Sales Growth (F1/F0)	14.23%	5.42%	3.90%	-2.07%	5.36%	6.61%
Momentum Score	A	-	-	A	B	A
Daily Price Chg	-1.31%	-0.08%	-0.83%	0.08%	-0.18%	-0.48%
1 Week Price Chg	0.41%	0.41%	1.65%	-0.23%	2.52%	4.57%
4 Week Price Chg	-7.40%	0.28%	-0.37%	-1.96%	2.50%	-2.62%
12 Week Price Chg	-16.32%	3.52%	3.74%	-6.00%	3.52%	1.41%
52 Week Price Chg	44.62%	29.28%	14.14%	5.38%	29.28%	26.55%
20 Day Average Volume	268,248	573,363	1,992,841	2,664,820	573,363	4,993,236
(F1) EPS Est 1 week change	0.13%	0.13%	0.00%	0.00%	0.29%	0.38%
(F1) EPS Est 4 week change	0.07%	0.00%	-0.02%	0.00%	-0.61%	0.41%
(F1) EPS Est 12 week change	-3.39%	-1.24%	-0.17%	-1.12%	-3.05%	-0.94%
(Q1) EPS Est Mthly Chg	0.65%	0.49%	-0.48%	1.82%	-0.43%	1.00%

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	A
VGM Score	C

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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