MarketAxess Holdings Inc (MKTX)

Updated July 23rd, 2021 by Quinn Mohammed

Key Metrics

Current Price:	$469	**5 Year CAGR Estimate:**	7.2%	**Market Cap:**	$17.8 B
Fair Value Price:	$319	**5 Year Growth Estimate:**	15.0%	**Ex-Dividend Date:**	08/03/2021
% Fair Value:	147%	**5 Year Valuation Multiple Estimate:**	-7.4%	**Payment Date:**	08/18/2021
Dividend Yield:	0.6%	**5 Year Price Target**	$642	**Years of Dividend Growth:**	11
Dividend Risk Score:	C	**Retirement Suitability Score:**	F	**Last Dividend Increase:**	10%

Overview & Current Events

MarketAxess Holdings is a fintech company operating an electronic trading platform for fixed income, such as corporate bonds, using patented trading technology. MarketAxess' platform promotes price transparency, more competition, and greater choice which has led to over 1,800 institutional participants utilizing the service. These participants are broker-dealer clients, investment advisers, mutual funds, insurance companies, pension funds, banks, and hedge funds. The products traded on the platform are U.S. high-grade corporate bonds, emerging market bonds, U.S. crossover and high-yield bonds, Eurobonds, U.S. agency bonds, municipal bonds, and others. MarketAxess trades on the NASDAQ under the ticker symbol MKTX and has a market capitalization of $17.8 billion. MKTX is headquartered in New York and has offices in London, Amsterdam, Boston, Miami, Hong Kong, and other U.S. states.

MarketAxess reported second quarter 2021 earnings on July 21st, and total revenues fell 5% to $176.3 million. Operating income also fell 16% to $87.2 million. The company's estimated U.S. high-grade market share came to 21.1% for the second quarter, down slightly from the prior year's 21.5% of market share. Diluted EPS of $1.77 actually fell 20% from the prior year's $2.20. While second quarter results were heavily impacted by low levels of credit market volatility in a tough year over year comparison, leadership maintains their long-term outlook of continuous growth.

During the second quarter, the company repurchased 28,701 shares at a cost of $13.4 million. As of the end of the first quarter, total assets were $1.5 billion, including $450 million in cash and cash equivalents. Leadership updated full year 2021 expense guidance to roughly $378 million from $372 million to include the impact of the MuniBrokers LLC acquisition, which had closed on April 9th. MuniBrokers is a central electronic venue serving municipal bond inter-deal brokers and dealers and is being folded into MKTX's growing municipal bond trading marketplace.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.20	$1.59	$1.81	$1.97	$2.55	$3.34	$4.19	$4.57	$5.40	$7.85	**$7.60**	**$15.29**
DPS	$0.36	$0.44	$0.52	$0.64	$0.80	$1.04	$1.32	$1.68	$2.04	$2.40	**$2.64**	**$5.31**
Shares[1]	38.8	37.4	37.7	37.3	37.4	37.5	37.6	37.9	38.0	38.0	**38.0**	**40.0**

MarketAxess is truly a growth stock, with a nine and five year compound annual growth rate in the EPS of 23.2% and 25.2%, respectively. Despite having grown so much in the last decade, the company does not seem to be letting up and we see them continuing to grow at a double-digit clip, as high as 15% in the near term. The dividend has also grown by over 20% annually in the last nine and five years, and we forecast 15% growth as being fair going forward.

MKTX's growth strategy focuses on increasing their penetration of existing and new markets, promoting Open Trading protocols, and continuing to invest in and grow their international business. The electronic trading market share is growing but they are still in their early stages of market penetration, so there is plenty of room to expand. International client volume will continue to increase, and the company will grow its list of active international client firms (firms

[1] In millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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outside of the USA and Canada) above the current 905 active firms. Municipal bonds volume is also growing quickly, hitting records in 2021, and will be bolstered by the recent acquisition of MuniBrokers.

Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	20.7	20.2	27.9	30.3	35.9	42.5	44.7	44.5	57.7	59.0	**61.7**	**42.0**
Avg. Yld.	1.4%	1.4%	1.0%	1.1%	0.9%	0.7%	0.7%	0.8%	0.7%	0.5%	**0.6%**	**0.8%**

MarketAxess trades at a lofty PE ratio, in-line with fast growing technology stocks. While shares currently trade at 61.7 times 2021 forecasted earnings, we believe that a valuation of 42.0 times would be more prudent. Historically, MKTX has traded at an average valuation of 38.3 times and 49.7 times earnings over the last nine and five years. At today's valuation, MKTX trades 24% above its five year average PE, and 61% above its nine year average PE. This unwinding of the valuation will result in 7.4% losses due to valuation contraction.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	30%	28%	29%	32%	31%	31%	32%	37%	38%	31%	**35%**	**35%**

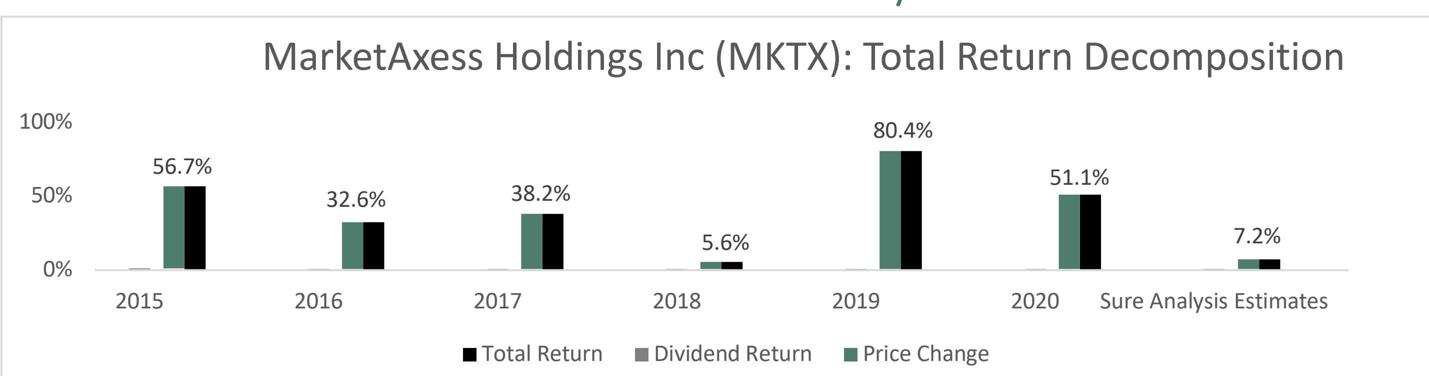
MKTX has a very stable payout ratio below 40% over the last decade, supported by strong cash flows and operating leverage due to their financial model. We see continued double digit earnings growth which will fuel significant dividend increases without affecting the payout ratio into the future.

MarketAxess made it through the Great Financial Crisis fairly unscathed. While earnings did fall by nearly 30% in 2008, the company remained profitable, and had no dividends to pay at the time (the dividend was initiated in 2009). By 2009, the company had already recovered, and earnings rose 40% above their peak earnings pre-crisis, and since then have actually grown every single year. MKTX's competitive advantage is its position as the leading electronic trading network for the institutional market in U.S. credit products, which is made up of nearly two thousand active institutional investor and dealer firms.

Final Thoughts & Recommendation

MarketAxess has managed to grow their earnings at an incredible double digit clip, and even more, they have managed to increase EPS every year since 2009. These earnings have supported strong growth in a dividend which has been increased for eleven consecutive years. Given MKTX trades at 147% of our fair valuation, we estimate a 7.4% loss due to valuation contraction. However, we also see significant 15% growth in earnings. Overall, we estimate MKT will produce 7.2% in total returns, and so we rate the company a Hold today.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	172	191	239	263	303	368	393	436	511	689
Gross Profit	119	136	174	188	219	271	291	326	380	532
Gross Profit %	69.5%	71.3%	73.0%	71.5%	72.3%	73.7%	74.0%	74.9%	74.4%	77.2%
SG&A Exp.	33	40	53	52	49	57	66	83	91	100
D&A Exp.	7	8	13	17	19	18	19	23	33	43
Operating Profit	81	89	107	119	148	190	200	213	251	375
Op. Margin	47.4%	46.8%	44.9%	45.1%	48.8%	51.7%	50.7%	48.8%	49.1%	54.4%
Net Profit	48	60	76	75	96	126	148	173	205	299
Net Margin	27.8%	31.5%	31.8%	28.5%	31.7%	34.3%	37.6%	39.7%	40.1%	43.4%
Free Cash Flow	58	71	68	95	109	71	142	176	231	359
Income Tax	32	28	39	44	52	65	54	45	53	75

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	349	280	354	380	439	528	581	696	955	1,331
Cash & Equivalents	170	129	133	169	200	168	167	246	270	461
Acc. Receivable	36	31	34	34	40	51	53	58	62	80
Goodwill & Int.	35	33	69	66	64	63	63	63	208	243
Total Liabilities	37	37	44	46	48	60	66	88	185	376
Accounts Payable	12	12	13	12	12	15	14	29	23	44
Long-Term Debt	-	-	-	-	-	-	-	-	-	-
Total Equity	312	243	310	334	391	468	515	608	770	955
D/E Ratio	-	-	-	-	-	-	-	-	-	-

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	14.7%	19.1%	24.0%	20.4%	23.5%	26.1%	26.7%	27.1%	24.8%	26.2%
Return on Equity	17.4%	21.6%	27.5%	23.2%	26.5%	29.4%	30.1%	30.8%	29.7%	34.7%
ROIC	17.4%	21.6%	27.5%	23.2%	26.5%	29.4%	30.1%	30.8%	29.7%	34.7%
Shares Out.	38.8	37.4	37.7	37.3	37.4	37.5	37.6	37.9	38.0	38.0
Revenue/Share	4.34	5.05	6.30	6.94	8.05	9.74	10.34	11.51	13.47	18.07
FCF/Share	1.47	1.88	1.78	2.51	2.90	1.89	3.75	4.66	6.09	9.41

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.