MarketAxess Holdings Inc (MKTX)

Updated July 20th, 2022, by Quinn Mohammed

Key Metrics

Current Price:	$267	**5 Year CAGR Estimate:**	11.1%	**Market Cap:**	$10 B
Fair Value Price:	$269	**5 Year Growth Estimate:**	10.0%	**Ex-Dividend Date:**	08/02/2022
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.1%	**Payment Date:**	08/17/2022
Dividend Yield:	1.0%	**5 Year Price Target**	$433	**Years of Dividend Growth:**	12
Dividend Risk Score:	D	**Retirement Suitability Score:**	F	**Rating:**	Buy

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 1,900 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 $10 billion. MKTX is headquartered in New York and has offices in London, Amsterdam, Boston, Miami, Hong Kong, and other U.S. states.

On January 26th, 2022, MarketAxess announced a 6% increase to the quarterly dividend to $0.70 per share.

MarketAxess reported second quarter results on July 20th, 2022. Revenues for the second quarter were up 3% year-over-year to $182 million. Operating income, however, fell 3% to $85 million. Diluted EPS of $1.78 was a penny, or 1%, increase from the same prior year period.

The company's estimated U.S. high-grade market share came to 22.3% for the quarter, up 120 basis points from the prior year's market share estimates.

During the second quarter, the company repurchased 178,801 shares at a cost of $49 million. As of the end of 2Q22, total assets were $1.6 billion, including $291 million in cash and cash equivalents. Leadership reconfirmed full-year 2022 estimated effective tax rate of roughly 25%. Additionally, the company estimates expenses to be between $385 million to $415 million and capex to be between $58 million to $62 million.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.59	$1.81	$1.97	$2.55	$3.34	$4.19	$4.57	$5.40	$7.85	$6.77	***$6.72***	***$10.82***
DPS	$0.44	$0.52	$0.64	$0.80	$1.04	$1.32	$1.68	$2.04	$2.40	$2.64	***$2.80***	***$5.16***
Shares[1]	37.4	37.7	37.3	37.4	37.5	37.6	37.9	38.0	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 17.5% and 15.2%, 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, around 10% in the medium term. The dividend has also grown by over 20% annually in the last nine, and we forecast 13% 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

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outside of the USA and Canada) above the current 982 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	20.2	27.9	30.3	35.9	42.5	44.7	44.5	57.7	59.0	59.9	***39.8***	***40.0***
Avg. Yld.	1.4%	1.0%	1.1%	0.9%	0.7%	0.7%	0.8%	0.7%	0.5%	0.6%	***1.0%***	***1.2%***

MarketAxess trades at a lofty PE ratio, in-line with fast growing technology stocks. Shares currently trade at 39.8 times 2022 forecasted earnings, which is in-line with our fair value estimate of 40 times. Historically, MKTX has traded at an average valuation of 42.3 times and 53.2 times earnings over the last nine and five years. At today's valuation, MKTX trades 25% below its five year average PE, and 6% below its nine year average PE. The miniscule valuation change could lead to 0.1% of annual gains due to an expanding valuation.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	28%	29%	32%	31%	31%	32%	37%	38%	31%	39%	***42%***	***48%***

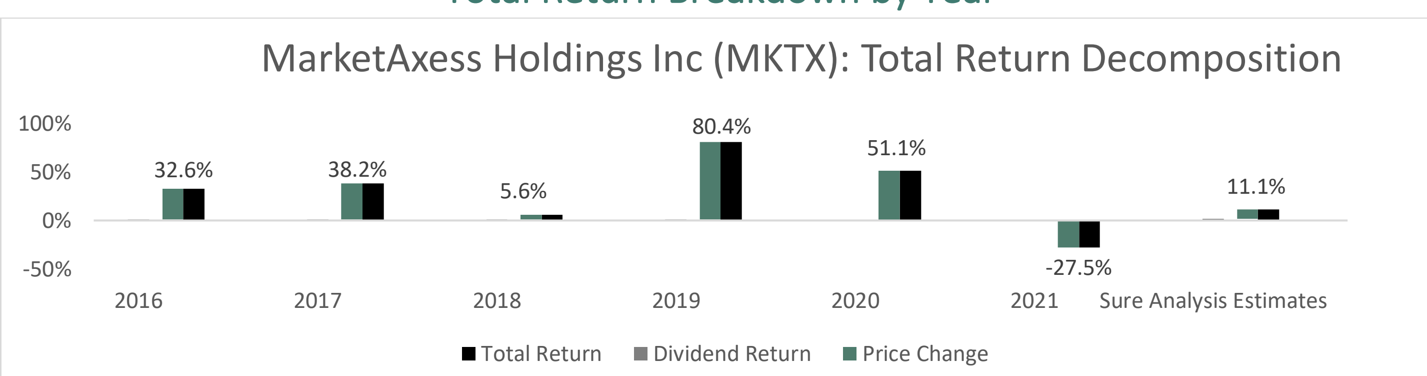
MKTX has a very stable payout ratio below 40% over the last decade, supported by strong cash flows and operating leverage due to their financial model. We see continued double digit earnings growth which will fuel significant dividend increases without gravely affecting the payout ratio into the future.

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, until 2021. 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, up until 2021. These earnings have supported strong growth in a dividend which has been increased for twelve consecutive years. MKTX trades at 99% of our fair valuation, and we estimate virtually no gain due to valuation expansion. However, we see significant 10% growth in earnings. Overall, we estimate MKT will produce 11.1% in annualized total returns, and so we rate the company as a buy today.

Total Return Breakdown by Year



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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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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	191	239	263	303	368	393	436	511	689	699
Gross Profit	136	174	188	219	271	291	326	380	532	528
Gross Profit %	71.3%	73.0%	71.5%	72.3%	73.7%	74.0%	74.9%	74.4%	77.2%	75.5%
SG&A Exp.	40	53	52	49	57	66	83	91	100	121
D&A Exp.	8	13	17	19	18	19	23	33	43	
Operating Profit	89	107	119	148	190	200	213	251	375	337
Op. Margin	46.8%	44.9%	45.1%	48.8%	51.7%	50.7%	48.8%	49.1%	54.4%	48.2%
Net Profit	60	76	75	96	126	148	173	205	299	258
Net Margin	31.5%	31.8%	28.5%	31.7%	34.3%	37.6%	39.7%	40.1%	43.4%	36.9%
Free Cash Flow	71	68	95	109	71	142	176	231	359	
Income Tax	28	39	44	52	65	54	45	53	75	76

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	280	354	380	439	528	581	696	955	1,331	1,530
Cash & Equivalents	129	133	169	200	168	167	246	270	461	507
Acc. Receivable	31	34	34	40	51	53	58	62	80	64
Goodwill & Int.	33	69	66	64	63	63	63	208	243	271
Total Liabilities	37	44	46	48	60	66	88	185	376	489
Accounts Payable	12	13	12	12	15	14	29	23	44	71
Total Equity	243	310	334	391	468	515	608	770	955	1,041

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	19.1%	24.0%	20.4%	23.5%	26.1%	26.7%	27.1%	24.8%	26.2%	18.0%
Return on Equity	21.6%	27.5%	23.2%	26.5%	29.4%	30.1%	30.8%	29.7%	34.7%	25.8%
ROIC	21.6%	27.5%	23.2%	26.5%	29.4%	30.1%	30.8%	29.7%	34.7%	25.8%
Shares Out.	37.4	37.7	37.3	37.4	37.5	37.6	37.9	38.0	38.0	38.0
Revenue/Share	5.05	6.30	6.94	8.05	9.74	10.34	11.51	13.47	18.07	18.35
FCF/Share	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.