



MarketAxess Holdings Inc (MKTX)

Updated January 25th, 2023, by Quinn Mohammed

Key Metrics

Current Price:	\$367	5 Year CAGR Estimate:	6.9%	Market Cap:	\$12 B
Fair Value Price:	\$305	5 Year Growth Estimate:	10.0%	Ex-Dividend Date:	02/07/2023
% Fair Value:	120%	5 Year Valuation Multiple Estimate:	-3.6%	Payment Date:	02/22/2023
Dividend Yield:	0.8%	5 Year Price Target	\$492	Years of Dividend Growth:	13
Dividend Risk Score:	C	Retirement Suitability Score:	F	Rating:	Hold

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 \$12 billion. MKTX is headquartered in New York and has offices in London, Amsterdam, Boston, Miami, Hong Kong, and other U.S. states.

On January 25th, 2023, MarketAxess announced a 3% increase to the quarterly dividend to \$0.72 per share.

MarketAxess reported fourth quarter results January 25th, 2023. Revenues for the fourth quarter were up 8% year-over-year to \$178 million. Operating income also rose by 7% to \$78 million. Diluted EPS of \$1.58 was 15% higher than the same prior year period.

The company's estimated U.S. high-grade market share came to 21.1% for the quarter, down 10 basis points from the prior year's market share estimates. The company's estimated high-yield market share, however, grew 500 basis points from 15.5% in fourth quarter 2021 to 20.5% in fourth quarter 2022.

As of the end of 4Q22, total assets were \$1.6 billion, including \$431 million in cash and cash equivalents. Leadership reconfirmed full-year 2022 estimated effective tax rate of roughly 25%. Additionally, the company narrowed estimated expenses to be between \$390 million to \$398 million and capex to be between \$48 million to \$52 million.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$1.81	\$1.97	\$2.55	\$3.34	\$4.19	\$4.57	\$5.40	\$7.85	\$6.77	\$6.65	\$7.83	\$12.61
DPS	\$0.52	\$0.64	\$0.80	\$1.04	\$1.32	\$1.68	\$2.04	\$2.40	\$2.64	\$2.80	\$2.88	\$4.64
Shares¹	37.7	37.3	37.4	37.5	37.6	37.9	38.0	38.0	38.0	37.6	37.5	40.0

MarketAxess is truly a growth stock, with a nine and five year compound annual growth rate in the EPS of 15.6% and 9.7%, respectively. Despite having grown so much in the last decade, the company continues to grow its trading volume and market share at a strong pace, and we see them continuing to grow earnings-per-share at a double-digit clip, by roughly 10% in the medium term. The dividend has also grown by over 20% annually in the last nine, and we forecast 10% 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 1,006 active firms. Municipal bonds volume is also growing quickly, hitting records in 2021 and 2022, bolstered by the acquisition of MuniBrokers.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	27.9	30.3	35.9	42.5	44.7	44.5	57.7	59.0	59.9	44.2	46.9	39.0
Avg. Yld.	1.0%	1.1%	0.9%	0.7%	0.7%	0.8%	0.7%	0.5%	0.6%	0.9%	0.8%	0.9%

MarketAxess trades at a lofty PE ratio, in-line with fast growing technology stocks. Shares currently trade at 46.9 times 2023 forecasted earnings, which is far above our fair value estimate of 39.0 times. Historically, MKTX has traded at an average valuation of 44.7 times and 53.1 times earnings over the last nine and five years. If MKTX declines to our fair valuation level in five years, it will incur a 3.6% annualized valuation drag in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	29%	32%	31%	31%	32%	37%	38%	31%	39%	42%	37%	37%

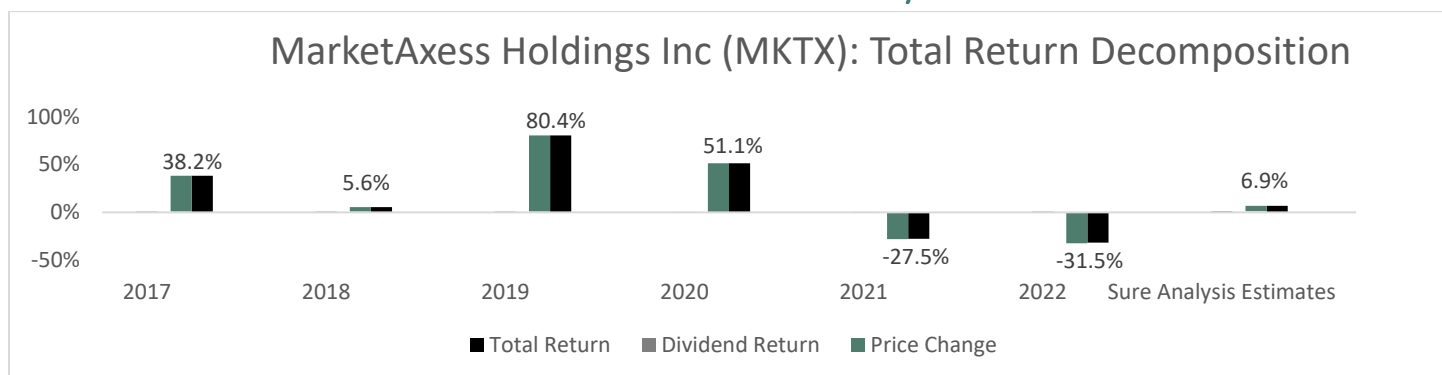
MKTX has a very stable payout ratio below 40% over the last decade, supported by strong cash flows and operating leverage due to their financial model. We see continued double digit earnings growth which will fuel significant dividend increases without gravely affecting the payout ratio into the future.

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 thirteen consecutive years. MKTX trades at 120% of our fair valuation, and we estimate a -3.6% negative impact from valuation contraction. We still see the potential for 10% growth in earnings. Overall, we estimate MKT will produce 6.9% in annualized total returns, and thus reduce our rating from buy to hold as the share price has greatly increased since our last report.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	239	263	303	368	393	436	511	689	699	718
Gross Profit	174	188	219	271	291	326	380	532	528	536
Gross Profit %	73.0%	71.5%	72.3%	73.7%	74.0%	74.9%	74.4%	77.2%	75.5%	74.6%
SG&A Exp.	53	52	49	57	66	83	91	100	121	130
D&A Exp.	13	17	19	18	19	23	33	43		
Operating Profit	107	119	148	190	200	213	251	375	337	327
Op. Margin	44.9%	45.1%	48.8%	51.7%	50.7%	48.8%	49.1%	54.4%	48.2%	45.5%
Net Profit	76	75	96	126	148	173	205	299	258	250
Net Margin	31.8%	28.5%	31.7%	34.3%	37.6%	39.7%	40.1%	43.4%	36.9%	34.8%
Free Cash Flow	68	95	109	71	142	176	231	359		
Income Tax	39	44	52	65	54	45	53	75	76	88

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	354	380	439	528	581	696	955	1,331	1,530	1608
Cash & Equivalents	133	169	200	168	167	246	270	461	507	431
Acc. Receivable	34	34	40	51	53	58	62	80	64	78
Goodwill & Int.	69	66	64	63	63	63	208	243	271	253
Total Liabilities	44	46	48	60	66	88	185	376	489	527
Accounts Payable	13	12	12	15	14	29	23	44	71	55
Total Equity	310	334	391	468	515	608	770	955	1,041	1081

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	24.0%	20.4%	23.5%	26.1%	26.7%	27.1%	24.8%	26.2%	18.0%	15.9%
Return on Equity	27.5%	23.2%	26.5%	29.4%	30.1%	30.8%	29.7%	34.7%	25.8%	23.6%
ROIC	27.5%	23.2%	26.5%	29.4%	30.1%	30.8%	29.7%	34.7%	25.8%	23.6%
Shares Out.	37.7	37.3	37.4	37.5	37.6	37.9	38.0	38.0	38.0	37.6
Revenue/Share	6.30	6.94	8.05	9.74	10.34	11.51	13.47	18.07	18.35	19.08
FCF/Share	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.

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