MarketAxess Holdings Inc (MKTX)

Updated February 1st, 2024 by Quinn Mohammed

Key Metrics

Current Price:	$220	**5 Year CAGR Estimate:**	15.8%	**Market Cap:**	$8.6 B
Fair Value Price:	$260	**5 Year Growth Estimate:**	11.0%	**Ex-Dividend Date:**	02/13/2024
% Fair Value:	85%	**5 Year Valuation Multiple Estimate:**	3.4%	**Payment Date:**	02/28/2024
Dividend Yield:	1.3%	**5 Year Price Target**	$438	**Years of Dividend Growth:**	14
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 2,000 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 $8.6 billion. MKTX is headquartered in New York and has offices in London, Amsterdam, Boston, Miami, Hong Kong, and other U.S. states.

MarketAxess completed the acquisition of Pragma, a quantitative trading technology provider specializing in algorithmic and analytics services for equities, forex, and fixed income, on October 2nd, 2023. In 2022, Pragma processed more than $2 trillion of algorithmic order flow across multiple asset classes.

On January 31st, 2024, MarketAxess announced a 3% increase to the quarterly dividend to $0.74 per share.

MarketAxess reported fourth quarter results on January 31st, 2024. Revenues for the fourth quarter increased 10.9% year-over-year to $197 million. Operating income declined by 1.3% to $77 million, but diluted EPS of $1.84 came in 16% higher than the same prior year period.

The company's estimated U.S. high-grade market share amounted to 20.9% for the quarter, down 20 basis points from the prior year's market share estimates. Its estimated high-yield market share also declined 330 basis points from 20.5% in fourth quarter 2022 to 17.2% in fourth quarter 2023.

As of the end of 4Q23, total assets were $2.0 billion, including $451 million in cash and cash equivalents.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$1.97	$2.55	$3.34	$4.19	$4.57	$5.40	$7.85	$6.77	$6.65	$6.85	***$7.43***	***$12.52***
DPS	$0.64	$0.80	$1.04	$1.32	$1.68	$2.04	$2.40	$2.64	$2.80	$2.88	***$2.88***	***$4.64***
Shares[1]	37.3	37.4	37.5	37.6	37.9	38.0	38.0	38.0	37.6	37.8	***38.0***	***40.0***

MarketAxess is truly a growth stock, with a nine and five year compound annual growth rate in the EPS of 14.9% and 8.9%, respectively. The company has succeeded in growing its trading volume and market share at a strong pace over the last decade, and we see them continuing to grow earnings-per-share at a double-digit clip, by roughly 11% in the medium term. The dividend has also grown by nearly 20% annually in the last nine years, and we forecast 10% growth as being fair going forward.

MKTX's growth strategy focuses on increasing its 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

[1] In millions

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client volume will continue to increase, and the company will grow its list of active international client firms (firms outside of the USA and Canada) above the current 1,050+ active firms. Municipal bonds volume is also growing, hitting records in the last three years, bolstered by its acquisition of MuniBrokers.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	30.3	35.9	42.5	44.7	44.5	57.7	59.0	59.9	44.2	42.3	***29.6***	***35.0***
Avg. Yld.	1.1%	0.9%	0.7%	0.7%	0.8%	0.7%	0.5%	0.6%	0.9%	1.0%	***1.3%***	***1.1%***

MarketAxess trades at a lofty PE ratio, in-line with fast growing technology stocks. Shares currently trade at 29.6 times 2024 forecasted earnings, which is below our fair value estimate, implying a potential valuation tailwind. Historically, MKTX has traded at an average valuation of 46.1 and 52.6 times earnings over the last nine and five years.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	32%	31%	31%	32%	37%	38%	31%	39%	42%	42%	***39%***	***37%***

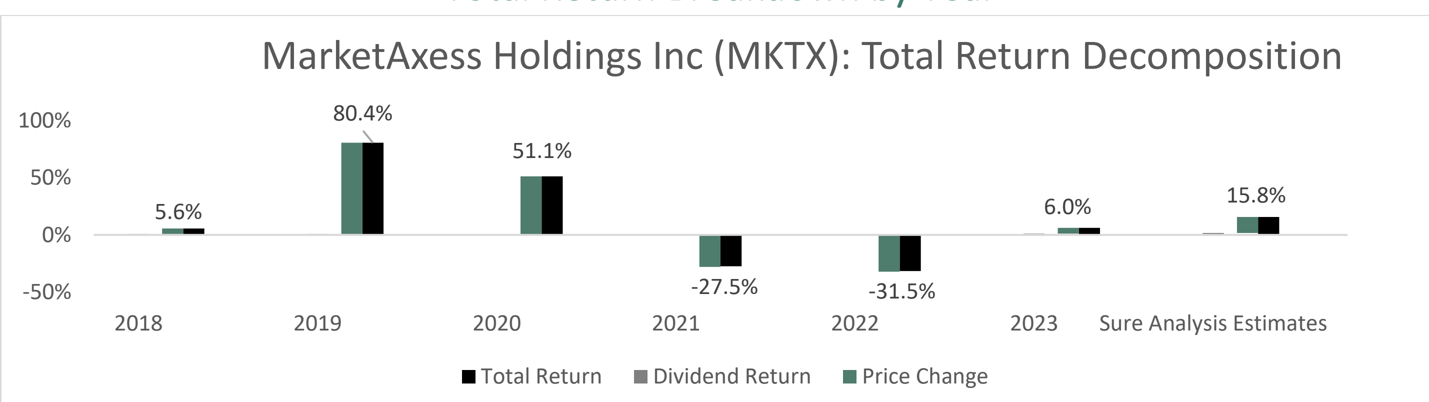
MKTX has had a very stable payout ratio below 40% over the last decade, supported by strong cash flows and operating leverage due to their financial model. We see continued double digit earnings growth which will fuel significant dividend increases without gravely affecting the payout ratio into the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

Final Thoughts & Recommendation

MarketAxess has managed to grow its earnings-per-share at a healthy double digit clip, and even more, they have managed to increase EPS every year from 2009 to 2021. These earnings have supported strong growth in the dividend, which has been increased for fourteen consecutive years. MKTX trades below our fair value estimate, implying a valuation tailwind. We still see the potential for 11% growth in earnings. Overall, we forecast MKT will produce 15.8% in annualized total returns, and thus reiterate our buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	263	303	368	393	436	511	689	699	718	753
Gross Profit	188	219	271	291	326	380	532	528	536	546
Gross Profit %	71.5%	72.3%	73.7%	74.0%	74.9%	74.4%	77.2%	75.5%	74.6%	72.5%
SG&A Exp.	52	49	57	66	83	91	100	121	130	143
D&A Exp.	17	19	18	19	23	33	43			
Operating Profit	119	148	190	200	213	251	375	337	327	315
Op. Margin	45.1%	48.8%	51.7%	50.7%	48.8%	49.1%	54.4%	48.2%	45.5%	41.8%
Net Profit	75	96	126	148	173	205	299	258	250	258
Net Margin	28.5%	31.7%	34.3%	37.6%	39.7%	40.1%	43.4%	36.9%	34.8%	34.3%
Free Cash Flow	95	109	71	142	176	231	359			
Income Tax	44	52	65	54	45	53	75	76	88	75

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	380	439	528	581	696	955	1,331	1,530	1608	2015
Cash & Equivalents	169	200	168	167	246	270	461	507	431	451
Acc. Receivable	34	40	51	53	58	62	80	64	78	778
Goodwill & Int.	66	64	63	63	63	208	243	271	253	356
Total Liabilities	46	48	60	66	88	185	376	489	527	722
Accounts Payable	12	12	15	14	29	23	44	71	55	574
Total Equity	334	391	468	515	608	770	955	1,041	1081	1293

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	20.4%	23.5%	26.1%	26.7%	27.1%	24.8%	26.2%	18.0%	15.9%	14.3%
Return on Equity	23.2%	26.5%	29.4%	30.1%	30.8%	29.7%	34.7%	25.8%	23.6%	21.7%
ROIC	23.2%	26.5%	29.4%	30.1%	30.8%	29.7%	34.7%	25.8%	23.6%	21.7%
Shares Out.	37.3	37.4	37.5	37.6	37.9	38.0	38.0	38.0	37.6	37.7
Revenue/Share	6.94	8.05	9.74	10.34	11.51	13.47	18.07	18.35	19.08	19.99
FCF/Share	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.