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CORPORATE PARTICIPANTS

Dave Cresci *MarketAxess Holdings, Inc. - IR*

Rick McVey *MarketAxess Holdings, Inc. - CEO, Chairman*

Tony DeLise *MarketAxess Holdings, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Patrick O'Shaughnessy *Raymond James & Associates, Inc. - Analyst*

Mike Adams *Sandler O'Neill & Partners - Analyst*

Kyle Voigt *Keefe, Bruyette & Woods, Inc. - Analyst*

Hugh Miller *Macquarie Research - Analyst*

Michael Wong *Morningstar - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. (Operator Instructions). As a reminder, this conference is being recorded January 27, 2016. I would now like to turn the call over to Dave Cresci, Investor Relations Manager at MarketAxess. Please go ahead, sir.

Dave Cresci - *MarketAxess Holdings, Inc. - IR*

Good morning and welcome to the MarketAxess fourth-quarter 2015 conference call. For the call, Rick McVey, Chairman and Chief Executive Officer, will review the highlights for the quarter and will provide an update on trends in our businesses. And then Tony DeLise, Chief Financial Officer, will review the financial results.

Before I turn the call over to Rick, let me remind you that today's call may include forward-looking statements. These statements represent the Company's belief regarding future events that by their nature are uncertain. The Company's actual results and financial condition may differ materially from what is indicated in those forward-looking statements.

For a discussion of some of the risks and factors that could affect the Company's future results, please see a description of risk factors in our annual report on Form 10-K for the year ended December 31, 2014. I would also direct you to read the forward-looking statement disclaimer in our quarterly earnings release, which was issued earlier this morning and is now available on our website.

Now let me turn the call over to Rick.

Rick McVey - *MarketAxess Holdings, Inc. - CEO, Chairman*

Good morning and thank you for joining us to discuss our fourth-quarter and full-year 2015 results.

This morning, we were pleased to report strong fourth-quarter and full-year results, driven by record overall trading volumes for both periods, with an acceleration in market-share gains across our core products.

Fourth-quarter revenues were $77 million, up 9% compared to Q4 2014. Pretax income for the quarter was up 10% to $37 million and diluted EPS was up 14% to $0.65.

Our estimated adjusted US high-grade market share was 17.6% in Q4, up from 16.1% a year ago. We had a record quarter for US high-yield and emerging-market trading volumes, and volume from European clients was up 52% year over year. Momentum continues in Open Trading, with record volumes and participation in the fourth quarter.

Slide 4 highlights our full-year results. Revenue and earnings growth for the full year in 2015 was consistent with our strong long-term growth rates. Full-year 2015 revenues were a record $303 million, up 15% from 2014, and diluted EPS was up 29% to a record $2.55. Commission revenues for 2015 were up 20% year over year to a record $266 million, as overall trading volumes reached a record $979 billion, up 28%.

Our strong results for the year were due to an acceleration in market-share gains across US high grade, high yield, emerging markets, and Eurobonds. Based on available market data, we believe share gains across these core products were significantly higher in 2015 than in prior years.

Estimated adjusted US high-grade market share for the year was a record 16.8%, up from 14.5% in 2014, and estimated high-yield share was 9.3%, up from 6.2%. Eurobond volume was up 78% from 2014 and active Eurobond client firms increased to 344 from 271 year over year.

Our free cash flow for the year was $105 million, and in light of our results and our outlook, the Board of Directors approved a 30% increase in the regular quarterly dividend to $0.26 per share.

Slide 5 provides an update on market conditions. Overall market volumes were slightly higher in 2015, with high-grade TRACE volumes up 5% and high-yield volumes up 8% for the full year. Fourth-quarter TRACE volumes were consistent with Q3 and with the prior year.

Benchmark high-grade credit spreads remained steady in Q4, while in high yield we saw an increase in spreads and an uptick in volatility, driven primarily by increased distress in the energy sector. US high-grade new issuance was flat in Q4, both compared to Q3 and to the fourth quarter of 2014, though US high-grade and high-yield corporate debt outstanding continues to rise and was up about 10% year over year.

For the second consecutive quarter, fixed-income mutual funds saw significant outflows, while dealers further reduced their balance sheets for market making. With dealer balance-sheet capacity scarce, more dealers are operating on an agency basis and demand for all-to-all open trading continues to grow.

Slide 6 highlights our expanding market opportunity. We are actively investing to expand the range of global credit products available for trading on our platform. Our local currency emerging-market volumes were up 238% in the fourth quarter, compared to the prior year, and local market trading now represents 20% of our overall EM volumes.

According to EMTA, local currency trading makes up about 58% of global EM secondary trading volumes and we view this as a significant opportunity to further expand our EM offering.

We expect to add municipal bonds to the platform in the second quarter of this year, based on broad demand from both dealer and investor clients. We believe that we can improve efficiency and lower transaction costs in the muni market by deploying our trading data and post-trade technology solutions. We expect to have approximately 250 institutional clients and 60 dealers live for muni trading at the time of launch.

We also plan to add leveraged loans in Q2 to complement our existing high-yield business.

In aggregate, this expanded product set represents an additional $20 billion in average daily trading volume. A 1% increase in trading volumes across our core and expanded markets would now deliver approximately $35 million to $39 million in additional annual revenues.

Our launch into new products leverages our growing client network and our technology investment. For the full year in 2015, over 1,000 client firms were active on MarketAxess and the number of clients trading three or more products has grown from 329 in 2010 to 616 in 2015. Our growth strategy is to increase market share in core products, add new products and services to our trading system, and continue to expand our global client footprint.

Slide 7 provides an update on Open Trading. Open Trading volumes doubled year over year, reaching a record $27.6 billion in the fourth quarter. Over 57,000 all-to-all trades were completed during the quarter, compared to 28,000 in Q4 2014. Open Trading trade volume was up about 25% in Q4 versus Q3.

We were especially encouraged by the increasing number of unique liquidity providers or price makers on the platform, which grew to 469 firms, up from 307 in Q4 of last year. This expanding pool of participants helped drive a 165% year-over-year increase in Open Trading price responses.

Price providers to Open Trading are enjoying some of the biggest transaction cost savings on the system as bid/ask spreads begin to widen.

The profile of Open Trading liquidity providers continues to be fairly evenly split between long-only investment managers, dealers, and other participants, such as ETF market makers and hedge funds. We are creating unique and valuable trading connections that allow market participants to expand their sources of liquidity. Over 13% of combined US high-grade and US high-yield volume on MarketAxess now takes place through Open Trading protocols, up from approximately 7% a year ago, and participants benefit from average cost savings of more than 4 basis points in yield when they complete a US high-grade transaction using Open Trading. Open Trading technology enhancements will remain a key focus area for investment in 2016.

Now let me turn the call over to Tony for more details on our volumes and financial results.

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

Thank you, Rick. Please turn to slide 8 for a summary of our trading volume across product categories.

Our overall global trading volumes were $250 billion, up from $211 billion one year ago. US high-grade volumes were $143 billion for the quarter, up 10% from the fourth quarter of 2014. The improvement in high-grade volume was primarily attributable to a more than 25% increase in inquiry volume. Volumes in the other credit category were up 42% year over year, driven by substantial order flow increases across all products.

For the fourth consecutive quarter, we reported record trading volumes for high-yield and emerging-market bonds. Based on Trax and TRACE data, emerging markets and Eurobond market volumes continued their recent downward trend and declined more than 10% year over year, while high-yield market volume was up modestly. This means that the vast majority of volume growth in our other credit category resulted from market-share gains.

With three trading days remaining in January, estimated high-grade market share is running consistent with the fourth-quarter level and around 200 basis points higher than January 2015 and growth in the other credit category remained strong.

Slide 9 displays our quarterly earnings performance. Revenues of $76.6 million were up 9% from a year ago, driven by record quarterly commission revenue. Total expenses were $39.7 million, up 8% from the fourth quarter of 2014 and in line with the full year of 2015 growth. As to the impact of the stronger dollar, the expense increase was approximately 10% year over year. Both operating income and EBITDA were up 10% compared to the fourth quarter of 2014.

The effective tax rate was 33.8% for the fourth quarter and reflects the recognition of certain tax credits amounting to approximately $400,000, which were permanently signed into law in December 2015. The 180 basis-point reduction in the full-year effective tax rate, from 36.9% in 2014 to 35.1% in 2015, reflects a higher percentage of income attributable to lower tax-rate jurisdictions and a reduction in certain statutory foreign and state tax rates.

Our diluted EPS was $0.65 on a stable diluted share count of 37.6 million shares.

On slide 10, we have laid out our commission revenue, trading volumes, and fees per million. Total variable transaction fees were up 16% year over year, due to the 18% increase in trading volume, offset by a slight decline in overall transaction fees per million.

Our US high-grade fee capture is influenced by a number of factors, including the duration of bonds traded on the platform, trade size, and dealer fee plan mix. The $5 per million sequential increase in high-grade fee capture was due primarily to higher execution fees resulting from the migration of three dealers during the fourth quarter from the major dealer fee plan to the all-variable fee plan. The dealer migrations were the main contributor to the $700,000 sequential decline in US high-grade distribution fees.

First-quarter 2016 distribution fees are expected to be approximately $800,000 lower than the fourth-quarter level, reflecting a full-quarter impact of the Q4 dealer movement.

In the other credit category, the fourth-quarter mix of product volume and fee capture were consistent with the third-quarter levels. The approximate 10% year-over-year decline in the other credit category fees per million were principally due to a mix shift within this category, including a heavier weighting toward emerging-market sovereign bonds.

Slide 11 provides you with the expense detail. Total fourth-quarter expenses were up $800,000 from the third-quarter level. Employee headcount was up slightly during the quarter and reached 342 at December year-end. On a year-over-year basis, the 9% growth in compensation and benefits was due to a combination of higher salary expense on an increase in headcount and higher equity-based compensation costs.

In the aggregate, non-compensation costs were up 7% year over year. Higher clearing costs reflected in the G&A line and marketing expenses were partially offset by lower technology-related costs.

On slide 12, we provide balance-sheet information. Cash and securities available for sale as of December 31 were $284 million, compared to $234 million at year-end 2014. Free cash flow reached a record $105 million in 2015 and was more than sufficient to cover the $53 million in dividends and share repurchases and the $15 million in capital expenditures.

During the fourth quarter, we repurchased 33,000 shares under our existing share repurchase program. There was no change in our capital structure during the fourth quarter. We have no bank debt outstanding and didn't borrow against our revolving credit facility.

On slide 13, we summarize our capital management activities. We continue to invest in organic initiatives to expand the addressable market, product offering, and geographic reach, which remains our primary capital deployment focus. The annual spend surrounding software enhancements to our trading platform and protocols and other organic initiatives have increased fivefold since 2010, and we expect a further ramp-up in such investment in 2016.

Our recurring quarterly dividend is an important element of our capital management strategy. The 30% increase in the quarterly dividend follows a 25% increase in 2015. We have now increased the dividend in six consecutive years.

Today, we also announced the authorization of the $25 million share repurchase program, which will replace our existing plan that is scheduled to expire at the end of February. Repurchases under this program will be designed to offset the increase in our diluted share count principally resulting from employee equity grants.

Through our existing cash position and strong cash flow generation, we have the flexibility to fund our investment priorities and to return capital to shareholders.

On slide 14, we have our 2016 expense, capital expenditure, and income tax rate guidance. We expect that total 2016 expenses will be in the range of $168 million to $176 million. The midpoint in that range suggests an approximate 11% increase in year-over-year expenses, which will be a little above our five-year compounded annual growth rate adjusted for the Trax acquisition in 2013.

The uptick in expected expense growth results from continued investment in Open Trading and other product extension initiatives. Consistent with 2015, employee compensation and benefit costs are expected to represent a little over 50% of total expenses in 2016. Over the course of the year, we are targeting headcount to increase around 10%. The timing of the expected headcount increase, variable incentive compensation, and foreign currency movement between the dollar and pound sterling could cause variations in the expense outcome.

We expect that 2016 capital expenditures will be several million dollars above the 2015 level and will range from $18 million to $22 million. The majority of the increase will be trading platform enhancements and new product features in the form of software development costs.

We expect that the effective tax rate for full-year 2016 will be similar to 2015 and will range from 34% to 36%. The mix of US and foreign source income could cause variations in the effective tax rate.

Now let me turn the call back to Rick for some closing comments.

Rick McVey - *MarketAxess Holdings, Inc. - CEO, Chairman*

Thanks, Tony.

2015 was a strong year of revenue and earnings growth for MarketAxess, consistent with long-term averages. Our competitive position continues to get stronger, as evidenced by our accelerating market-share gains in core products. Open Trading is leading the way, with innovative solutions to enhance credit market liquidity. In Europe, growth in trading volumes and the integration of Trax provides a foundation for improved earnings from the region.

Now I would be happy to open the line for your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Patrick O'Shaughnessy, Raymond James.

Patrick O'Shaughnessy - *Raymond James & Associates, Inc. - Analyst*

So as you think about the new product launches that you're going to be having in the second quarter, what are you most excited about near term and what are you most excited about long term?

Rick McVey - *MarketAxess Holdings, Inc. - CEO, Chairman*

I think in the near term we are already seeing some results from the EM local market expansion and we think that will continue throughout 2016 and beyond and represents a significant opportunity.

Based on the client feedback we're getting, we're also enthusiastic about the launch of municipal bond trading. It is a large market, highly fragmented, and a need in electronic trading solutions, and we do believe that the capabilities that we have will add a lot of value to our clients in that product area. So we are looking forward to that launch, which we have planned for the second quarter of this year.

Patrick O'Shaughnessy - *Raymond James & Associates, Inc. - Analyst*

Got it, and, Tony, once you do begin to see volumes and revenues in leveraged loans and munis, do you anticipate including those within the other credit bucket?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

Patrick, that's what we would put them in there, yes, in the other credit bucket. And we will continue to break out the volumes and provide as much granularity as necessary to understand the swings in that category.

And just remember, with the planned Q2 launches it is more of a second half of the year exercise, but we will provide at least enough granularity to understand what's happening in that bucket.

Patrick O'Shaughnessy - *Raymond James & Associates, Inc. - Analyst*

Got it, I appreciate that.

Moving to Open Trading, I think with some of the functionality that you have built into that in terms of being able to do trade workups and still trading larger block trades, I guess I'm a little bit surprised that the average trade size doesn't appear to have really moved up over the last few quarters. Does that surprise you at all, and would you anticipate that average trade size starting to ramp over the next few quarters and years?

Rick McVey - *MarketAxess Holdings, Inc. - CEO, Chairman*

I think the evolution is pretty close to what we would have expected in Open Trading. I think it is an additional liquidity pool available to clients on the platform, and the results so far have been that clients are using Open Trading for similar trade sizes as they always have in the client-to-dealer module.

But we did have a good year overall in block trading. Our block trading volume was up about 25% in 2015, so we are encouraged by what we see there, but we obviously continue to gain share in smaller trade sizes as well, which is why the average trade size hasn't budged that much.

We have, Patrick, some important enhancements rolling out in the second quarter for Open Trading, which we think will continue to address the client concern about information leakage by allowing for private negotiations, once we have identified a match on the trading platform, and I think as we continue to enhance the capabilities around large trade sizes, we will see better progress in the quarters and years to come.

But block trading does continue to be an important part of what we are doing and it was about 20% of our volume during the fourth quarter and over 90% of the trades reported to TRACE, and we think we're doing the right things on the technology enhancements to make it easier for clients and dealers to trade more blocks on the system.

Patrick O'Shaughnessy - *Raymond James & Associates, Inc. - Analyst*

Got it, and then one last one for Tony on a related note. As we think about your clearing costs that I think are an increasingly large component of your G&A expenses, should we think about those scaling up one for one with your Open Trading volumes?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

Patrick, it is a growing piece of the expense right now, but I don't think it is going to scale on a one-for-one basis. Right now, the model is to use a third-party clearing agent. It is not scaled exactly one to one right now. It is not what we had forecasted for next year, either.

And we will continue to look at how we are clearing right now, we are looking at alternatives, and really reacting to the way clients want to clear and represent prices. But it will not scale one to one, no.

Patrick O'Shaughnessy - *Raymond James & Associates, Inc. - Analyst*

All right, I appreciate it. Thank you, guys.

Operator

Mike Adams, Sandler O'Neill.

Mike Adams - *Sandler O'Neill & Partners - Analyst*

Congrats on another very strong year here. So I want to touch on the product expansion as well, and appreciate some of the detail you gave us on slide 6. But when you look at muni bonds and leveraged loans, like some of these less liquid markets, how should we think about maybe the electronic penetration you think you can achieve? Could you frame that for us?

Rick McVey - *MarketAxess Holdings, Inc. - CEO, Chairman*

We are bullish longer term and I think somewhat cautious on short term because any time we've launched a new product, getting both clients and dealers engaged in electronic trading and responding the way they can and fully integrated does take a little bit of time.

But when we look at the municipal market, it has some similar characteristics to the corporate bond market in that it is inundated with small trades that are not being conducted all that efficiently today. So, we believe we can have a significant impact in that market, and I think when you look at the potential for market share longer term, I wouldn't be at all surprised to see the institutional muni business moving to 35%, 40% electronic.

So, it's early days for us. We think we have all the right client feedback and the network and the technology to really make a difference for our clients. We are excited about the launch, but history would show that it does take a number of quarters to get people fully engaged.

Mike Adams - *Sandler O'Neill & Partners - Analyst*

Great, thank you for that color. And then on a related note, just looking at the expense guidance, Tony, you mentioned the 11% growth pretty healthy relative to history. So, could you provide a little bit of insight on the revenue side? It sounds like we shouldn't expect too much contribution from the product expansion this year, but maybe what about the outlook for some of the nontransaction businesses? You have been investing pretty heavily over in Europe. How should we think about that this year?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

Mike, you know the guidance we provide, right now it is limited to the expense side and tax rate and capital spend. On the nontransaction side, you saw what we delivered in 2015, which was relatively flat on the information and post-trade side. We are expecting some growth there. Again, without being specific, we are expecting some growth there.

And yet in that area, it's a little hidden, but our data revenue was up 12% year over year. It is masked a little bit by the foreign-currency impact, so we did face some headwinds with the stronger dollar there. We have new data products and liquidity products coming online. There is client demand and uptake and interest in those products. The sales cycle is a little bit longer, but we do expect some revenue growth. So without being specific on it, we do expect some growth in that information and post-trade line.

Rick McVey - *MarketAxess Holdings, Inc. - CEO, Chairman*

And I would just add to that, Mike, on the European side, we're pretty excited about a couple of things that clients are responding very well to. One, we have taken another step in integration of the Trax data into the trading platform, so it is increasing the visibility of that data and the usefulness to our clients for price discovery.

And secondly, we are following a similar path in Open Trading in Europe to the one that we have accomplished in the US, so each quarter we are seeing more take-up around Open Trading and the promise of a new and valuable liquidity source for our clients in Eurobonds. So, we are very focused on the region. We are happy with what we accomplished during the year in 2015, but we think there is much more ahead if we can continue to execute and deliver unique value to our clients.

Mike Adams - *Sandler O'Neill & Partners - Analyst*

Okay, and one last one from me, just on the subject of pricing. Could you update us on your thoughts around the pricing for the other credit bucket? You mentioned, I think, on the last call that you were considering some tweaks to accelerate share gain, so have you discussed this with customers and is it something we could see this year?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

Mike, on the pricing side, there is some pricing in the revenue model. It is critical to our success. It is critical to [long service as I said] getting that right. We believe that the liquidity take-or-pay model or the markup model, that it is the right model. We have that model in place for high-grade, we have that model in place for Open Trading, and we do think it scales better for dealers.

It scales better for liquidity providers. It promotes price responding, and when you think about our success, our success is really in the depth of our liquidity pool. The deeper the pool, the more price response is [that], the more trades are executed, the more inquiry flow on the platforms because it is virtual circle running.

We have got a couple of products today that don't run on that markup model, and that's high yield and emerging markets and Eurobonds. We are continuing to evaluate when and if the time is right to adjust those fee plans, but nothing right now in the near term that we intend on changing that would impact the revenue outcome for 2016.

Mike Adams - *Sandler O'Neill & Partners - Analyst*

Okay. Thanks, Tony, and congrats again, gentlemen.

Operator

Kyle Voigt, KBW.

Kyle Voigt - *Keefe, Bruyette & Woods, Inc. - Analyst*

Thanks for taking my question. So I guess I will ask another couple questions on the planned expansion to munis and leveraged loans. Can you just give us some more color regarding the effort that has already gone into getting ready for the launches in the second quarter? How long have you been preparing for this and how long have your clients been asking for? And is there any sense that you can give us whether client demand has been growing more recently?

And then, just secondly, could you expand on some of the challenges of getting these muni traders to begin using the platform, and then how you expect to overcome this?

Rick McVey - *MarketAxess Holdings, Inc. - CEO, Chairman*

Sure. A couple of things on that, Kyle. The client demand has been building really over the last year, and we have many large asset management clients that have their municipal bond traders sitting alongside their high-grade and high-yield traders watching their colleagues enjoy the efficiency and the cost savings of the MarketAxess system throughout the trading day.

And that has led to quite a bit of demand to add the municipal bond products to the system. So that's been growing over the last year, which is why beginning in the third or fourth quarter of last year we started to prioritize the technology enhancements to launch the municipal bond product.

The work has been going on for about six months. As I mentioned earlier, the benefit that we have is we're leveraging a lot of the technology investments that we have made over the last 15 or 16 years because the bid and offer list capabilities, combined with Open Trading, are exactly what the municipal bond clients are looking for.

So that work has been going on. We are on track for completion in the second quarter and we would expect to launch trading during the first half of that quarter.

The challenges are the ones that we have observed before. It is a change in trading behavior. So it is the blocking and tackling of getting clients to input more of their bid and offer lists and their order flow into the system, getting used to using the technology, and it is getting the price responders and market makers also integrated and comfortable providing prices back on those orders.

So, it all takes a period of time, but this is one of the product areas where we feel the most confident with our launch in our history, really, based on the feedback that we are getting, and the municipal bond market is a significant opportunity. We think about $6 billion in average daily trading volume in the secondary market, so everything seems to be on track for us at this time.

Kyle Voigt - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay, thanks. That's really good color. So I guess just based on the response you just gave, it seems like the new product launches are more about applying your current protocols in corporate trading and migrating that over and tweaking those. But I just wanted to understand or ask you if you are more actively looking at potential M&A opportunities that could maybe help kick start the growth for trading in those products.

Rick McVey - *MarketAxess Holdings, Inc. - CEO, Chairman*

I don't know that we see anything different in the M&A landscape than where we have commented in prior quarters. What we have been delivering and building to the market is unique. We have seven or eight protocols running that are built for the institutional credit markets, and we have been most successful with organic growth and organic technology development and I don't see anything really changing there.

And when you think about our mission in the institutional market, combined with all-to-all trading through the Open Trading enhancements, it is not obvious that there are acquisitions out there that would accelerate our path into any existing products or new products.

Kyle Voigt - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay, thank you. And just my last question, I'll sneak one in on capital. So it looks like the Board authorized a $25 million, two-year repurchase plan. So am I right to infer from this that you just plan to continue to use repurchases over the next two years just to offset equity dilution?

And then on the dividend increase of 30%, obviously a sizable increase, but relatively in line with your earnings growth in 2015. Is there any reason why the Board didn't maybe elect to bump up the payout ratio in 2015 a bit higher, given the growing cash on the balance sheet?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

Kyle, on the repurchase play, we do have a plan that expired at the end of February and you saw the $25 million authorization for the new plan.

And just to put it in perspective, we are trying to offset dilution from equity grants. And a rule of thumb to look at, if you look at grant value, equity grant value, each year or if you look at stock-based compensation expense, that would give you a rule of thumb of what we would be anticipating from an annual repurchase standpoint, and we think that $25 million is -- would offset dilution over the course of the next two years.

That is how we feel today. It can change, but that is how we feel right now in terms of the plan we put in place.

And on the dividend piece, you are right. Observationally, you are right that the 30% increase is in line with the increase in earnings in 2015. When I look longer term, the increase in that dividend over the past five years has outpaced our increase in free cash flow and our increase in earnings, so we are growing that dividend level.

That strong earnings and that free cash flow generation, we can increase the dividend. We can still make investments in Open Trading and new products. We feel it is the right balance right now between the dividend and share repurchases.

Rick McVey - *MarketAxess Holdings, Inc. - CEO, Chairman*

I just would add to that as well. We get a lot of feedback from our large investors on our capital management plan, and consistently they like the steady growth that we've been delivering on the dividend and they like the strong balance sheet. So it is a great position for the Company to be in to be increasing the dividend the way that we are, building further strength in our balance sheet, and investing organically. So we think we have that balance about right and that is certainly the feedback that we're getting from our large investors.

Kyle Voigt - *Keefe, Bruyette & Woods, Inc. - Analyst*

Okay, thank you very much.

Operator

Hugh Miller, Macquarie.

Hugh Miller - *Macquarie Research - Analyst*

I don't want to belabor the point, but a couple questions just on the new initiatives as well. As we think about the competitive landscape, particularly within muni trading, how does that compare to what you are facing right now? Is it primarily just going up against the over-the-phone type trading or are there other people out there that are trying to solve that with solutions that are more electronic?

Rick McVey - *MarketAxess Holdings, Inc. - CEO, Chairman*

Sure, I think what you see in the muni space is that there are a number of retail-oriented municipal bond systems that have also been trying to move their liquidity pool up to the institutional client.

I think in very small ticket sizes they have had some success, but what we hear anecdotally is that most of those platforms have average ticket sizes of just $40,000 or $50,000, so it is really the micro lots for institutional clients that trade on those systems and not what they would view as their more significant order flow.

The incumbent really for some form of electronic messaging is really Bloomberg, where they have functionality that allows the muni market to exchange order and price messages. The feedback we get is that that is not a fully electronic solution that includes the competitive price discovery, the bid and offer list functionality that we deliver, and the post-trade straight-through processing.

So what we are picking up from clients is this would represent a significant improvement in their electronic trading efficiency with this launch that we have on track for the second quarter.

Hugh Miller - *Macquarie Research - Analyst*

Okay. And then, of the active -- or clients that you now have for high grade, high yield, et cetera, how many of them would you say -- I know you gave us a sense of who is launching with you, but how many of them actively trade in the muni space?

Rick McVey - *MarketAxess Holdings, Inc. - CEO, Chairman*

A significant number. We have done a lot of work on the -- both the buy side and the sell side dynamic in the municipal space, and we think about half of our target muni clients are already taxable clients on our system and another half are more muni specific that we are in the process of adding to the trading platform.

But the largest global bond investors that are already active on our platform also tend to be the largest municipal bond investors. So in terms of the percentage of the market that we already cover, we think it is more than half.

On the dealer side, as you know, Hugh, there are loads of regional dealers involved in the municipal bond market, so that's another area where the 60 or so that we expect to have live at launch probably represent about half of where we would expect to be a year from now, so there are plenty of new dealers to add to the system, but they also tend to be smaller in size than the dealers that we already have live on the trading system.

Hugh Miller - *Macquarie Research - Analyst*

Got it, that's very helpful. And as we think about that other credit category and variable pricing, as we consider some growth in the coming years from munis, leveraged loans, how does the fee capture there -- can you give us just a rough sense of what you're anticipating there relative to the other products?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

Sure, Hugh. On the -- for munis at launch date, what we intend on going out with a tiered fee plan which will be based on ticket size and maturity, and what that equates to is a fee capture -- I am going to give you a pretty broad range, but the fee capture will be somewhere between high grade and high yield, so -- which happens to be where the other credit category sits right now. So it is a pretty broad range.

It is going to be dependent on ticket size. At the outset, in all likelihood, it will probably favor smaller ticket sizes, which means higher fee capture, but think about the -- for munis sitting squarely in between high grade and high yield, which will be consistent where the other credit fee capture is right now.

And for loans, you're going to hear much of the same story where it is a pretty basic fee plan that we are launching with and the fee capture right now, we expect, would look similar to what you see in that other credit category right now. So at least at the outset, we don't think it will influence the fee capture up or down in any significant way.

Hugh Miller - *Macquarie Research - Analyst*

Certainly helpful. It makes it easier to model, I guess, where you don't have to change the assumptions.

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

Agreed, agreed.

Hugh Miller - *Macquarie Research - Analyst*

And then, just last for me, you gave us some color on the expected range for expenses. Can you just give us a sense as to the incremental cost for these new initiatives relative to incremental costs just for improving protocols and stuff like that with Open Trading? How should we think about just higher costs associated with the munis, leveraged loans, et cetera?

Tony DeLise - *MarketAxess Holdings, Inc. - CFO*

In the prepared remarks, I made some comments about the midpoint of the range compared to our historical growth, and when you look at that uptick, if you isolate the discrete and incremental investment to launch these new products, munis and loans, what we are looking at right there is somewhere between $2 million to $3 million in expenses in 2016.

And with any product launch, you have to build functionality, you integrate reference data, you connect clients. And there is an effort there -- of that $2 million to $3 million, there is employee costs that are built in there, so there is customer-facing employees and technologists that we have hired and will be hiring over the course of the year. There is also reference data that we had to subscribe to.

So, that incremental spend, think about it for 2016, couple of million dollars. It might be more than that in 2017 as we ramp up the effort.

Hugh Miller - *Macquarie Research - Analyst*

Very helpful. Great, thank you very much.

Operator

(Operator Instructions). Michael Wong, Morningstar.

Michael Wong - *Morningstar - Analyst*

So, more and more banks are possibly throwing in the towel on their fixed-income trading business. What do you see as the balance between a subdued outlook for trading as a whole versus issues specific to their business model?

Rick McVey - *MarketAxess Holdings, Inc. - CEO, Chairman*

Well, I think you're right. The trend continues to be that some dealers are making decisions that they don't want to be as actively involved in fixed-income market making as they have in the past.

And we know the challenge between the capital requirements and layers of compliance costs that have been added to the industry. The challenge for all of them is to achieve reasonable ROEs for their investors, so some of those decisions are being made.

I still think the backdrop here is a significant increase in credit debt outstanding around the world with numbers that are up around 80% over the last five years. So, we're dealing with a much larger market that is entering what could be a new period of increased volatility, and that volatility will lead to trading activity.

And we think it is part of our responsibility back to our clients to provide the tools to address the regulatory changes that are taking place and deliver new sources of liquidity so that we can efficiently move bonds through the system in what is now a much larger market with growing volatility.

Michael Wong - *Morningstar - Analyst*

Okay, thanks for that. And it seems that the stock and derivative exchanges are putting together some of the pieces of possibly a fixed-income trading platform or addressing credit more. Are there pieces that you believe you have that make you successful that they currently do not have?

Rick McVey - *MarketAxess Holdings, Inc. - CEO, Chairman*

I'm not sure exactly what you are referring to, but there is no change in what we view to be our most important competitive advantages. We have been investing in credit technology for 16 years with significant investment enhancements every single quarter, so we have been at this a long time and we think we have got the broadest base of trading protocols available for the credit markets.

And we continue to add more. I suspect that our investment budget again this year will be larger than anyone else in this space in the coming year.

And then, secondly, we have obviously been very hard at work consistently on growing our client network and fully integrating them into our trading system. So, it is very gratifying to see our active client list go over 1,000 firms in the last year.

So, we have got a really broad and deep network of clients and we have an expansive set of trading protocols available for our clients, and we see those as the most important competitive advantages. And as we have talked about during the call today, we are not standing still. We are investing more in the coming year and we expect to for the foreseeable future.

Michael Wong - *Morningstar - Analyst*

Okay, thank you.

Operator

Thank you. I am showing no further questions at this time. I would like to turn the call back over to Rick McVey for closing remarks.

Rick McVey - *MarketAxess Holdings, Inc. - CEO, Chairman*

Thank you for joining us this morning and we look forward to talking to you again next quarter.

Operator

Ladies and gentlemen, this concludes today's conference. Thanks for your participation and have a wonderful day.