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CORPORATE PARTICIPANTS

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

Rick McVey *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

Tony DeLise *MarketAxess Holdings, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Patrick O'Shaughnessy *Raymond James & Associates - Analyst*

Niamh Alexander *Keefe, Bruyette & Woods - Analyst*

Hugh Miller *Sidoti & Company - Analyst*

Matthew Heinz *Stifel Nicolaus - Analyst*

Jillian Miller *BMO Capital Markets - Analyst*

Howard Chen *Credit Suisse - Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. At this time, all participants are in a listen-only mode. Later we will conduct a question and answer session. (Operator Instructions) As a reminder, this conference is being recorded November 2, 2012.

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 Manager

Good morning and welcome to the MarketAxess third-quarter 2012 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 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 the description of Risk Factors in our annual report on Form 10-K for the year ended December 31, 2011.

I would also direct you to read the forward-looking disclaimers 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 of the Board

Good morning and thank you for joining us to discuss our third-quarter 2012 results.

Earlier this morning, we reported third-quarter results, which show records in a number of areas. Despite softer overall market volumes during the quarter, revenues were up 4% to \$48.3 million, driven by an 18% increase in variable transaction fees.



Diluted EPS improved to a record \$0.36 compared to \$0.34 one year ago. Our estimated US high-grade market share reached a record level of 12.5% compared to 11.6% in the third quarter of 2011. Combined emerging markets and high yield volumes were up 35% compared to a year ago and reached a new quarterly record. CDS volume was up 51% sequentially and represented our best quarter ever for CDS trading volume.

We are increasing our investment in Europe. Earlier today, we announced that we have agreed to acquire Xtrakter Ltd. from Euroclear. Xtrakter will expand our regulatory transaction reporting, fixed income trade matching, and data services for European clients.

Slide four displays some details on our quarterly results and financial strengths. We are investing heavily in new markets and technology solutions that expand our future opportunity set. In spite of these investments, we continue to report growth in operating income and EBITDA. September year-to-date EPS was \$1.05, up 14% from \$0.91 in the same period in 2011, and year-to-date EBITDA is \$71.2 million.

Free cash flow was over \$61 million for the trailing 12 months, and our cash and securities balance at September month end was \$204 million or \$5.44 per diluted share. Our strong cash flow and cash balances will allow us to complete the Xtrakter acquisition from existing cash balances. The Board has approved a regular quarterly dividend of \$0.11 per share.

In addition, during the quarter, we made some modest share repurchases pursuant to our existing share repurchase plan.

Slide five provides an update on market conditions. New issuance volume strengthened in the third quarter from softer levels in the second quarter. TRACE volumes have also bounced back strongly in September and October after a week month in August. We currently expect full-year TRACE volumes to be around the same level as the last three years. Taxable fixed income fund inflows continue to be very strong, due to the search for yield and favorable asset class diversification.

The impact of the dealer balance sheet constraints continues to be visible in the decline in block trading as a percent of overall high-grade TRACE volume. Block trades represented 38% of total TRACE volume in the third quarter, down from 43% in Q3 of 2011. We view this trend as favorable for our business since we typically have a higher market share in smaller, non-block trade sizes.

Slide six summarizes the trading volume across our product categories. Overall global volume in the third quarter was up 5% year over year to \$138 billion. Q3 high-grade TRACE volumes were down 2% compared to a year ago and down 6% sequentially. The 5% increase in our US high-grade volume to \$86 billion was due solely to the marketshare improvement. Growth in investor orders was the principal driver of the marketshare gain. Hit rates, especially for investor buy orders, declined during the quarter, reducing overall high-grade market share gains.

Eurobond volumes were down 21% from the third quarter of 2011 to \$6 billion. In spite of the regional softness in eurobond trading, our cross regional business from European investor clients into emerging markets and US high-grade bonds grew 23% from the prior year period. Combined volume from European investors is flat versus the year ago period.

Other product category volumes were up 9% from the third quarter of 2011 to \$46 billion in the third quarter of 2012. Combined emerging markets and high yield volumes increased 35% from the third quarter of 2011 to a new quarterly record. We believe these gains were primarily due to marketshare gains as high-yield TRACE volume was down 2% versus the prior year period.

As you may recall, we are not reporting CDS volume in our monthly volume release. However, CDS volume was up 51% sequentially from the second quarter and reached a new quarterly record.

Overall October volumes were negatively impacted by Hurricane Sandy and the lack of trading on Monday and Tuesday of this week. Excluding those two days, our total average daily trading volume was similar to the very strong results in September. October estimated US high-grade market share was in line with September, while EM and high-yield average daily volumes hit new records.

Slide seven gives an update on our new initiatives. We remain focused on expanding our US high-grade market share. We believe that structural changes in the credit markets caused by regulatory reform will drive electronic market share higher in credit markets. We are focused on growing



investor order flow and expanding our electronic trade matching solutions. Less block trading and smaller trade sizes are already increasing demand for electronic trading.

Our dealer to dealer platform continued to gain traction in the third quarter. D2D high-grade volume increased 49% from the second quarter with 58 different dealers trading. We will roll out additional functionality for the D2D market in the coming quarters. Our open trading solutions are designed to increase trade matching opportunities between investors. Investors submitted 22% of orders to the market list open order book during the quarter, and October will show another significant increase. While still a small part of overall trading volume, investor trade matches are growing through market lists.

We recently launched our client access functionality to allow clients to anonymously post indications of interest alongside dealer inventory. We have the technology ready for a central limit order book if investor and dealer demand grows for live trading.

Slide eight provides an overview of the extractor business and the acquisition rationale. Earlier this morning, we announced that we will acquire Xtrakter Ltd. from Euroclear. Xtrakter is a market leader in regulatory transaction reporting, fixed income post-trade matching and market data services. We are very excited about the opportunities presented by this acquisition.

Xtrakter's business is highly complementary with MarketAxess and will provide us with an expanded set of technology solutions for European clients. The Xtrakter business serves over 200 dealers and other institutional market participants in Europe currently. The acquisition will more than double our European revenues and employees.

Upcoming European market regulations, including MiFID II, will increase demand for trade reporting, and industry moves for our [T+2] settlement will increase the demand for trade matching solutions. We expect to register Xtrakter as an improved publication arrangement, or APA, and we will work with the industry on the upcoming requirement for a consolidated trade take for fixed income. We believe that these data and post trade services represent an ideal fit with our existing electronic trading and data capabilities.

Our value proposition for clients is driven by real-time data, electronic trading, and straight through processing tools. We believe that the acquisition of Xtrakter represents an important step to deliver a unique front to back electronic trading service, including real-time data, electronic trading, regulatory transaction reporting, and trade matching services for the European financial markets.

Now let me turn the call over to Tony to provide some financial details on the Xtrakter transaction and our third-quarter financial performance.

Tony DeLise - MarketAxess Holdings, Inc. - CFO

Thank you, Rick. On slide nine, we have summarized some financial highlights for the Xtrakter transaction. The purchase price is GBP26 million in cash. Together with approximately \$2 million in transaction costs, the total cost of the acquisition is estimated to be around \$44 million. Closing of the transaction is continued on obtaining regulatory approval from the UK Financial Services Authority and satisfaction of other customary conditions. We are working through the regulatory approval process and currently expect to complete the transaction in the first quarter of 2013.

Xtrakter's 2011 actual and 2012 projected revenues are both approximately \$24 million. We expect that near-term revenues will be consistent with this run rate and that new opportunities to expand trade matching and data services would be realized in 2014 and beyond. We expect the acquisition to be approximately neutral to earnings per share in 2013, including the impact of the amortization of intangibles and the opportunity cost of funding. We do expect to make certain software, hardware, and infrastructure technology investments over the next several years, and that revenue synergies would drive accretion into 2014.

Slide 10 displays our quarterly earnings performance. Revenues of \$48.3 million were up 4% a year ago, principally due to an 18% increase in variable transaction fee commissions, offset by lower distribution fees and lower technology products and services revenues. The year-over-year decline in technology products and services revenues was largely due to lower professional services fees. We narrowed our areas of focus and made some professional services headcount adjustments during this year. Total expenses were \$27 million, up 11% from the third quarter of 2011 and down 2% sequentially from the second quarter.



I will touch on the expense variance versus 2011 momentarily. The effective tax rate for the third quarter was 36.4%. The year-to-date effective tax rate is now 39.2% compared to 39.6% last year.

During the third quarter, we benefited from a state income tax apportionment methodology refinement. The impact of this change in estimate related to prior years amounted to approximately \$0.01 per diluted share. Our diluted EPS was \$0.36 on 37.5 million diluted shares. Shares repurchased during the third quarter did not materially impact the diluted share count.

On slide 11, we have laid out our commission revenue trading volumes into fees per million. Distribution fees were \$14.6 million during the third quarter of 2012, down 10% from the third quarter of 2011 and consistent with the second-quarter level. The year-over-year decline resulted from the first-quarter 2012 distribution fee reduction on our major eurobond fee plans. We currently expect that fourth-quarter distribution fees will be consistent with the third-quarter level.

US high-grade fees per million were \$203 in the third quarter, up from \$189 in the third quarter of 2011 and consistent with the second-quarter level. US high-grade fee capture continues to benefit from the low yield rate environment and the longer average years to maturity of bonds traded.

The other product category fees per million were \$216 in the third quarter of 2012, up from \$175 a year ago and from \$205 in the second quarter of 2012. Higher fee capture emerging market and high-yield volume accounted for the increase and represented 60% of the other product category volume in the third quarter of 2012 compared to 48% one year ago.

Slide 12 provides you with the expense detail. The 11% year-over-year increase in total expenses was driven by a higher incentive bonus provision of \$1 million and \$500,000 of Xtrakter deal costs.

By way of reminder, during the third quarter of last year, we reduced the year-to-date bonus provision. Excluding these items, third-quarter expenses were up approximately 5% year over year.

Expenses for the first nine months of 2012 were \$83 million. Assuming a first-quarter 2012/2013 close date, we would expect half of the Xtrakter transaction costs to be recognized in the third and fourth quarter of 2012 and the remainder in the first quarter of 2013.

Under this scenario, we believe that our full-year 2012 expenses will be toward the upper end of our original guidance range of \$107 million to \$112 million. Excluding the Xtrakter costs, full-year 2012 expenses would be near the middle of that original guidance range.

On slide 13, we provide balance sheet information. Cash, cash equivalents and securities available for sale as of September 30 were \$204 million compared to \$248 million at year-end 2011 and \$238 million one year ago. Cash return to shareholders through share repurchases and our quarterly dividend over the past 12 months amounted to \$96 million. We spent \$1.5 million in the third quarter to repurchase 49,000 shares under the share repurchase plans.

Capital expenditures totaled \$9 million for the first nine months of 2012. We recently had a successful deployment of our replacement disaster recovery data center and continue to expect that full-year capital expenditures will be near the high end of the original guidance range of \$8 million to \$11 million. There was no change in our capital structure during the third quarter, and we continue to have no bank debt.

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

Rick McVey - MarketAxess Holdings, Inc. - CEO & Chairman of the Board

Thank you, Tony. We are seeing broad-based trading momentum across many product areas, including US high-grade emerging markets, high yield and CDS. We believe that we are on the right track with our open trading initiatives to develop alternative sources of liquidity for dealers and investors. We are enthusiastic about the pending acquisition of Xtrakter and the additional product capabilities it will bring to our European dealer and investor clients. We see growing momentum in our business and a larger opportunity set ahead.

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 - Analyst

Good morning, guys. First question, on the deal that you guys did, can you elaborate maybe a little bit more on some of the revenue synergies, so maybe some of the cross-selling opportunities that you have with that deal and then maybe some of the cost synergies down the road? I think you kind of implied maybe 2014 for that.

Rick McVey - MarketAxess Holdings, Inc. - CEO & Chairman of the Board

Sure, Patrick. Be happy to. Obviously, we value the deal based on the Xtrakter core business as it exists today. But when we look at the details around the MiFID II regulatory changes and the industry move toward T+2 settlement, we do believe that there are two potential areas of synergies in bringing our capabilities and clients together with Xtrakter.

The first is, with their market-leading position in regulatory transaction reporting today, they do have a broad base of transaction data that we believe will become an important part of the infrastructure as the European markets move to approved publication arrangements and eventually a consolidated trade tape. So we do think that this is an important part of the business expansion for Xtrakter, and obviously with all the work we've done in the MarketAxess bond taker and the TRACE reporting in the US, we think it fits perfectly with our value proposition for the overall electronic trading business.

The second part of it is really around the trade matching services, and as dealers and investors are forced to comply with shorter settlement periods, real-time trade matching will become more important to make sure that they can meet those obligations to settle trades on a shorter time cycle. So we do think, in that area too, given the position that Xtrakter now has with regulatory transaction reporting, there is an opportunity for us to expand those trade matching services and, in some scenarios, include more investor clients in the trade matching business.

Patrick O'Shaughnessy - Raymond James & Associates - Analyst

Okay. That's helpful. I guess a follow-up question. So this is probably the first deal that I think I remember you guys doing in quite some time. Do you think there could be more deals following this? So I guess, are you guys maybe more inclined to use some of your extra cash to do deals at this point in your growth cycle, or do you think that this might be it for a while?

Rick McVey - MarketAxess Holdings, Inc. - CEO & Chairman of the Board

Yes, I think, as we've said many times, Patrick, if we can find businesses that fit as well as Xtrakter does with our strategic vision and our service to our clients, we will continue to be very interested.

As you know, we have been disciplined. We haven't seen that many deals that compete with our organic growth opportunities over the last four or five years. And right now, this was a transaction that fit us perfectly, and if we see more of these along the way, we would be happy to take a very close look.

Patrick O'Shaughnessy - *Raymond James & Associates - Analyst*

Okay. Great. And then one last one, if I could. Your US distribution fees, I believe, went up a little bit, about \$300,000 quarter over quarter. Did you sign up another dealer, or that is just kind of an accounting thing?

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

Patrick, on that one, toward the end of the third quarter, we did have one of the dealers on the all-variable plan move up or convert to the fixed plan. So that accounted for most of that distribution fee difference in the US.

Patrick O'Shaughnessy - *Raymond James & Associates - Analyst*

Then shouldn't we see expect a little bit more sequential increase then in the fourth quarter?

Rick McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

You know, I said it would be largely consistent. Distribution fees will be consistent with the third quarter. There could be a slight uptick for this one dealer, yes.

Patrick O'Shaughnessy - *Raymond James & Associates - Analyst*

Okay. Got you. Thank you so much.

Operator

Niamh Alexander, KBW.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Hi, thanks for taking my questions, and thank god for the deal announcement.

Just on the cash again, I guess this is the time ahead of all the tax changes where folks are trying to figure out who's going to pay a special dividend to have the taxes amount. Can you help me understand, you've done this deal. I still think you have excess cash outside of this deal, but am I thinking right that you probably want to keep some powder dry right here because there could be some opportunities with all these regulatory changes and some fallouts. And as well as that, maybe Tony, you can update us. I know on certain levels, it's maybe a return of capital, if you did do a certain size dividend. So, therefore, impending tax changes might not make a difference.

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

Sure. Sure. You're right. We still have, even after the Xtrakter acquisition, we'll still have a lot of cash. And even looking at it right now, if we pay out \$44 million or so for Xtrakter, and even after paying out the year-end bonuses, it's pretty reasonable to expect that we have something north of \$150 million in cash. And even at that time, still a strong balance sheet unlevered, lots of debt capacity, still generating lots of free cash flow. So we still think that we can maintain this capital management policy and still act accordingly along with dividends and share repurchases. So we still have that flexibility.

And when it comes to things like special dividends, I'll tell you, right now, it's probably a little less likely having done the Xtrakter acquisition. But we'll continue to assess whether we want to do something around a special dividend or expand the stock repurchase plan. There's still a lot of uncertainty around what is happening with the expiring tax rules.

So we'll continue to take a look at this, take a look at it with the Board in the fourth quarter. But we do still have the capacity. I think you are right, though. Your observation on -- and the question before from Patrick, also, around acquisitions, and are there others out there, and I think we do want to maintain a strong balance sheet, strong cash position for those opportunities that could come along.

Niamh Alexander - Keefe, Bruyette & Woods - Analyst

Fair enough. I appreciate it. Thanks, Tony. And then if I could, where you are beating us here is at the rate cards because of this continued strength in the high yield on the emerging markets. Great to see. Can you give us some more colorful? Do you think you've gained some share because the overall industry volume is down? Have you gathered new customers? Is it the same customers as the European customers trading US? You know, what is it that you think is driving it? Is it overall market growth? And then could you give us an update on the go local and the emerging markets? How is that going?

Rick McVey - MarketAxess Holdings, Inc. - CEO & Chairman of the Board

Yes. Happy to do so. I think we are seeing a broader base of clients active in the EM products and high-yield products. It tends to be people that have been active with us in the high-grade product that are increasingly utilizing the trading capabilities and the transaction services for EM and high yield, and the industry volumes have been kind of flat.

Clearly, the EM and high-yield traffic is partly driven by the search for yield, but we're very pleased that we're starting to see a significant pickup in market share that's traded electronically and more comfort from investors and dealers in doing so across the market access platform.

With respect to local markets, we are on track with our plans for the year. We are signing up more Latin American clients that can be active, not only in the Latin American local markets, but also on our US and European platforms. We are increasing the number of dealers that are available for market making in the local markets. Not a huge part of what we're doing in the EM business overall today, but we're happy with the progress, and we think it will have an impact down the road.

Niamh Alexander - Keefe, Bruyette & Woods - Analyst

Okay. Fair enough. Thanks. And then if I could, move back to your high-grade market, and you rolled out the list functionality. Thank you for the data points you've given us and the presentation on the increasing trade count. Can you just maybe give us an update or some more color about how that's going? And then, secondly, in the high grade, you know, just to go back to all the things that we felt moved your stock earlier in the year, about headlines, about new potential competitive venues. Have you had any clients -- have you been reaching out? Have you had any clients stayed or switching or you're finding more matches on these venues, or, by the way, we want you to cut your fees MarketAxess because we have an alternative?

Rick McVey - MarketAxess Holdings, Inc. - CEO & Chairman of the Board

Yes. I am happy to address that. I think this path involves a significant shift in behavior for investor clients. And my own view is it will take time to develop. And we're very pleased with the foundation that's being built on the market access system. We obviously have the largest base of investor electronic order flowing in credit in the US markets currently. And virtually every week we're seeing an increase in the number of orders that are going into market lists. There was a significant step-up, as I mentioned, in the third quarter. There's been another step-up in October. So I think investor willingness to expose orders more broadly and get more orders in the market list is a very encouraging sign.

On the other side, every week we're seeing more investors set up watchlists so they can be alerted when orders come into the system that may fit with their portfolio needs, and that is starting to trigger more investor to investor trade matches.

As I cautioned earlier, that, too, is in early stages, and it is a tiny part of what we're doing. But I think if you look at the number of clients that are involved, the number of orders that we're seeing, the trade matches, all these are encouraging signs and we think are complementing the service that we provide to expand beyond just purely the dealer liquidity pool.

With respect to the competition, we don't really have anything new there. Obviously, there are a number of initiatives out in the marketplace. It's our understanding that none of them are seeing instant gratification. In many cases, we continue to believe that they do not compete directly with what we do. And I think our independence and the size of our dealer and investor-installed network give us a very large advantage as long as we continue to innovate and add new technology matching solutions to the existing platform on MarketAxess.

Niamh Alexander - Keefe, Bruyette & Woods - Analyst

Okay. So no inclination or pushback on fees other than usual?

Rick McVey - MarketAxess Holdings, Inc. - CEO & Chairman of the Board

Obviously, we have not made any fee changes, as Tony reported earlier. The fees remain constant on the system, and it's really product and maturity mix that is moving the fee capture around it.

Niamh Alexander - Keefe, Bruyette & Woods - Analyst

Okay. Fair enough. Thanks, Rick. I appreciate it. Thanks, Tony.

Operator

Hugh Miller, Sidoti & Co.

Hugh Miller - Sidoti & Company - Analyst

Good morning. I guess as a follow-up on kind of the improvement in the use of order list that you guys had talked about, obviously you guys have tried to add some functionality there. But is there any particular reason you're hearing from clients as to the change in sentiment there, and why they're more willing to kind of use that and kind of focus on the client to client cross-matching now relative to times past?

Rick McVey - MarketAxess Holdings, Inc. - CEO & Chairman of the Board

Yes. I think that the constraint on market liquidity is causing investors to be much more proactive about developing alternative sources of liquidity. And even though, as you know, Hugh, TRACE volumes are likely to be flat again this year overall, if you look at the turnover of outstanding corporate debt, turnover is declining because the base of outstanding debt is up about 28% or so over the last four or five years. So flat TRACE volumes reflect a decline in overall market turnover. And if that continues, it becomes more and more difficult to create alpha in active portfolio management strategies. And investors, I think, are moving with their fee to develop new solutions to address that problem, created primarily by the regulatory changes that are taking place in the industry.

So we see tremendous support not just in what they're doing with market list, but also in the input that they are providing to us on various ways that we could help to address the problem.

Obviously, as I mentioned earlier, the decline in block trading may be a positive for electronic market share and credit markets. It's a very difficult challenge for large money managers that are trying to move larger positions through the market.

So I think you do see that there is a broad recognition among institutional investors and dealers that they need to act differently to develop new solutions, and we're very pleased to see the breadth of support that we have around the new functionality that we have been developing.

Hugh Miller - *Sidoti & Company - Analyst*

Okay. Great color there. And I guess, in talking about some of the other comments you made about market share and, obviously, with some of the challenges to the hit rates during the third quarter, being a touch of a headwind, I was wondering if you could just make any commentary about the hit rate you are kind of seeing in October. And I know you typically tend to have a seasonal benefit on the market share towards the latter part of the year as we see even more trading of the non-block size trade. So is that something you're still confident in as we think about the fourth quarter in your share?

Rick McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

Yes, let me address the hit rate question, and then Tony can talk a little bit about the seasonal impact on share, typically for the fourth quarter.

But, oddly enough, we have a shortage of credit bonds in the market currently. And you can see that with the demand that exists for new issues as they come to market and also the demand for secondary paper. And dealer inventories, as you know, are at 10-year lows.

So we are seeing the biggest gap currently in our hit rates for bids wanted versus offers wanted that we have ever seen. And, as a result, offers wanted are having a very difficult time getting filled, and that is where the overall hit rate on the market access system has declined somewhat.

As I mentioned earlier, we think that that has held back our market share gains because the investor order flow growth continues to be very strong. Typically, these imbalances do get corrected over time, but that's the short-term situation that we're in, and in a healthier environment, we would expect not only the growth in investor order flow, we would also expect to see the hit rates back at about 70%. And I think in a more balanced market, that is what we continue to expect.

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

And then, Hugh, just a follow-up just on October share and how that relates to, say, the full fourth quarter. Just looking back over the last several years, if history does tell us anything, the fourth quarter is typically our strongest market share quarter. Just looking back over the last several years, it's anywhere from 60 to 130 basis points higher than the third quarter, and that would be a typical pattern for us.

But even within the quarter, we can look at market share by month. October is always the lowest market share. As everybody knows, December is always the highest market share month during the quarter. So, if history proves out here, we are confident that we can get this marketshare number back above Q3 levels and back in line with the historical growth you've seen from Q3 to Q4.

Hugh Miller - *Sidoti & Company - Analyst*

Okay. Great color there. And one housekeeping question. I do appreciate the additional detail for the Xtrakter deal. As we think about the revenue that you guys have mentioned there, roughly about \$24 million, is that all in kind of the revenue areas with the technology fees, or will some of that actually flow through on the European high grade based on some of the trading solutions, or how should we think about that?



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

You know, Hugh, we haven't settled on exactly where we're going to report the Xtrakter revenues. I think if we keep with the current view, it would end up falling down in the data area, and any exhaust that we get from trading on the eurobond side would flow up into the product category. We haven't quite settled on how we're going to show that right now.

Hugh Miller - *Sidoti & Company - Analyst*

Okay. And last question I had was just, obviously, I think that the noise surrounding the elections have kind of pushed off progress made on any type of CDS regulation. But can you just give us an update on where things stand now and what you're hearing in your expectations for timetables?

Rick McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

Sure. I'd be happy to, and I think you're right. The elections have sidetracked things temporarily. I was invited to a small gathering with Chairman Gensler about a week ago with a group of likely SEFs. And in that meeting, he said that the CFTC still hopes to finalize the SEF rules by the end of this year.

He acknowledged that they do have a busy calendar over the next few months, but he said that the final rule set was now in the hands of the commissioners and that they would be studying that carefully, and that it was his hope that they could come to consensus and finalize those rules by the end of this year.

We've heard less from the SEC with respect to their timetable for the securities-based SEF rules. I think we would all be guessing, but most people think at this point is likely to be later in 2013 when we see the SEC securities-based SEF rules.

Hugh Miller - *Sidoti & Company - Analyst*

Okay. Thank you.

Operator

Matthew Heinz, Stifel Nicolaus.

Matthew Heinz - *Stifel Nicolaus - Analyst*

Good morning, guys. Just another question on the hit rates and the market share trends in 3Q. I guess I am just wondering if you're seeing some of the new issue backlog. I think we saw some record issuance for this time of year in 3Q. Just wondering if you're seeing some of that backlog clear out that may have weighed on hit rates and share a little bit in 3Q and whether you expect that new issuance to begin turning over in the secondary market in 4Q with the lack of liquidity that is out there?

Rick McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

Yes, you know, October was obviously another pretty good market for new issues. The activity is higher than it was in the second quarter, and you are absolutely right to point out that when the new issue calendar is active, typically our share falls a bit as the focus goes to the new issue allocations and trading that's being conducted on swap with the underwriters. We would typically expect, as we move later into the fourth quarter, that the new issue calendar does slow down. And that's one of the factors I think causes our share through the fourth quarter to typically improve. And then when you flip into the new year, the first quarter is normally a very active quarter for new issues.

I think part of the question is on the timing. We are seeing pre-refunding and early rollovers and issuance from various corporations because the yield rate environment is so attractive. So there may be some front loading of new issues supply coming to the market now that all else equal would cause supply to be a little bit less in the future periods.

Matthew Heinz - *Stifel Nicolaus - Analyst*

Okay. Do you think there's been any pull forward of new issuance that typically takes place in the first quarter and generally weighs on your share in that period?

Rick McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

It's hard to know. The new issue numbers are strong, but they're not off the charts. So I would be hesitant to say that we think that the activity the last few months has pulled anything meaningful out of the first-quarter calendar.

Matthew Heinz - *Stifel Nicolaus - Analyst*

Okay. And then, if I could, just a follow-up on Xtrakter. You said it would be EPS neutral in 2013, including amortization, but I'm just wondering how much accretion you might expect on a cash basis. And then, also, how much did you bake into your valuation in terms of maybe the regulatory catalyst with MiFID II and the consolidated trade tape in Europe?

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

Yes, sure. Matt, just taking the first part of the question on the cash flow piece of it. In the prepared remarks, I mentioned that it would be neutral to earnings in 2013, and that's after the amortization of intangibles.

And we haven't finished the appraisal work there yet, but just sort of rule of thumb for acquisitions like this, if something like 25% of the purchase price over the tangible assets, it could fall into amortizable intangibles. And, again, we haven't finished the work, but that number could be something like \$1 million in terms of amortization of intangibles each year.

But I do caution because what we are doing here, we will be investing in people and systems and infrastructure, mainly on the technology side. So when we look out over the next four years for Xtrakter, based on our current view, it could be something like GBP8 million or GBP9 million that we'll be investing in, again, technology investments around people, systems, and infrastructure, over the next four years or so. So -- and some of that is capital spending. For example, we will be building out some new data centers and investing in technology. So some of that is capital spending. A lot of it is front end loaded. So purely looking at it from a cash flow standpoint, we do not expect it to be a significant contributor to free cash flow.

Rick McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

And on the second part of the question, as we mentioned earlier, we valued the Xtrakter business based on its core business today. As you would expect, we looked at it in a number of different ways with respect to multiples, comparable transactions, DCF model. But we are attracted to the potential synergies that may come from this deal down the road that you alluded to as the MiFID II regulations take hold, probably later in 2014. And with the over 4 million transaction regulatory reports per day going through Xtrakter and the leading position in fixed income trade reporting, specifically, we really like being in the center of that. And we think we can expand our services to our European clients, and certainly operating in a real-time environment for trade reporting and transactions is what we do today.

So that's clearly part of the appeal to the transaction, but our evaluation was based on their core business as it exists today.



Matthew Heinz - *Stifel Nicolaus - Analyst*

Okay. That's very helpful. Thanks, guys.

Operator

Jillian Miller, BMO Capital Markets.

Jillian Miller - *BMO Capital Markets - Analyst*

Hey, guys. Good morning. I just wanted to ask one more question on Xtrakter. I'm sure you guys are getting sick of hearing all these, but when I hear consolidated tape, it makes me think of kind of like a utility business and something that wouldn't necessarily be generating the type of margins that you guys are used to in your other businesses. So I'm sure I'm just missing some things in the nuance of the business model, but maybe you could just give us a little bit more detail on that.

Rick McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

Do you want to talk about the margins and then I'll talk about the --

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

Yes. Sure. Just, Jillian, just looking historically at this business, stand-alone, the operating margins have bounced around a little bit. But in recent years, they've been in that 15% to 20% range. And we will be making, as I mentioned, making some investments here in the near term, so that will cause some depression in operating margins.

But we certainly think, once the revenue synergies kick in and once we can from some of these new technology investments drive some efficiencies into the business, we do think longer term that we can get those growth rates and margins. It could be consistent with what you're seeing now from us out of the Xtrakter standalone business. And that would be excluding the potential synergies that impact on trading on our European platform.

So Rick mentioned one of the important elements is integrating what Xtrakter does and can do into our trading platform in Europe, and we do think that there's a significant benefit there. If we have strong form of price discovery built into the trading platform, it would give us an advantage.

Rick McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

And, Jillian, just looking back at the experience in the US, there was a significant uptick in the electronic trading market share, following the implementation of the TRACE tape in 2002. And I do think quality real-time price data is critical to getting investors and dealers more comfortable with increasing electronic trading share.

So we do believe that this is a core part of our future European product offering, again, in line with the regulatory changes, that really getting quality real-time products fully integrated and what we do in electronic trading is likely to be positive for the electronic trading share in Europe.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay. That makes sense. And one other thing I wanted to ask you guys about TradeWeb last month added, I guess, a dealer to dealer portion to its electronic trading platform for CDS. It seems to be getting some initial traction, and there's a lot of buzz about it. I just wanted to get your thoughts



on whether opening up your dealer to client model to dealer to dealer as well might be something you're looking at, and I guess just more broadly in how you're looking to position yourself competitively in the evolving CDS electronic trading market?

Rick McVey - MarketAxess Holdings, Inc. - CEO & Chairman of the Board

Yes. We're not exactly sure exactly what the breadth of activity is on other competitive platforms for CDS. We saw some of the press reports on D2D that you alluded to.

Certainly, we're wide open to that. We have obviously expanded our bond offering to dealer to dealer business because the demand that we have from existing bond clients, and we would certainly be open to doing that with respect to the CDS platform as well.

And it is early days. We're going to have some fairly significant regulatory changes for the CDS market in the upcoming year or two. And I think a lot has to be determined in terms of the competitive landscape around SEFs for both indices and single names and in the D2D and the client to dealer market. We do feel very good about the functionality that we've been adding to our CDS system, the breadth of participation that we now have and the independence that we enjoy as a public company, which is also one of the key criteria outlined in the SEF proposed rules.

Jillian Miller - BMO Capital Markets - Analyst

Okay. Thanks. I mean, with respect to the SEF proposed rules, it looks like there are some delays coming, but potentially, if Romney is elected, we could see more than delays. It could be the SEF rules are fundamentally changed, watered down or even eliminated. I just would like to get your thoughts on what that means for the CDS initiative? I mean, is this a viable business? Does it still have the same type of growth potential absent SEF rules or in a scenario where the SEF rules are materially different?

Rick McVey - MarketAxess Holdings, Inc. - CEO & Chairman of the Board

Yes. No, I think that's a good question. I agree that there is a bit more uncertainty about the timing now than what we would have expected six months ago. And our view is that the benefits of electronic trading within fixed income securities and derivatives are coming through in the market share gains and the investor behavior changes that we see across multiple products, and eventually CDS will follow suit and move in that direction as well.

The pace of that adoption clearly will depend on the regulatory changes. And I continue to believe that when it comes to the swap rules that there seems to be bipartisan support. There might be some differences in the role set and the timing of implementation, but it's our view that in most scenarios you're going to see them continue to move forward with finalizing and implementing the rules for SEFs and security-based SEFs.

Jillian Miller - BMO Capital Markets - Analyst

Okay. Thanks. Just one final one for me on the incremental margins. They're going to be lower this year, and I know you're investing a lot in CDS and some other new initiatives.

But just wondering, as we look to 2013, especially given some of the investments you've mentioned related to Xtrakter, should we be back at that 60% to 70% type of incremental margin level that we were at kind of before this year, or going forward should we be more around kind of the 2012 level?

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

Jillian, on the incremental margins, our view continues to be -- and this would be absent the impact of Xtrakter that we still can generate incremental margins in that 60% to 70% range, albeit we haven't demonstrated those sorts of incremental margins this year. But we still believe that over the longer term for that core business we can still generate those types of incremental margins.

There is always going to be an impact once we roll in Xtrakter here. We'll try and give you more visibility on that as the months go on. The deal hopefully will close in the first quarter. We'll have more to say about it and more to say about the financial impact and outlook for 2013 at that point in time. But just thinking about the core business, even with the investments we're making, if we can continue to drive that topline revenue growth, we still feel good about those longer-term incremental margins in that 60% to 70% range.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay. Thanks, guys.

Operator

Howard Chen, Credit Suisse.

Howard Chen - *Credit Suisse - Analyst*

Hi. Good morning, Rick. Good morning, Tony. Just congratulations on the announcement of the Xtrakter deal. I think the financials you presented are helpful, and there's been a lot of follow-up questions. But could you just give a sense of what growth has been like over the past few years over the Euroclear ownership before accounting for integration costs, amortization, and your synergy expectations?

Rick McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

Howard, on the topline revenue numbers, you look back over those last two or three or four years under the Euroclear umbrella, Xtrakter's revenues have been around \$24 million, \$25 million, something between GBP15 million to GBP16 million. So it's been a pretty consistent revenue number there. And again, as I mentioned before, on the margin side, they bumped around a little bit, but thinking about sort of a normalized margin, it's been in that 15% to 20% range.

Howard Chen - *Credit Suisse - Analyst*

Great. That's really helpful. Thanks, Tony. And then one of the last meaningful transactions I recall you doing was Greenline that helped people steer your technology business and fixed connectivity. Rick, maybe just a few years down the road, can you just update us on how growth within that portion of the business has been and how returns have been versus your initial expectations upon deal announcement back in 2008?

Rick McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

Yes, Greenline, obviously we are reporting within our technology business, so it's been quite visible. The transaction, much like Xtrakter, was a bolt-on to our existing business. We feel good about promoting fix standards throughout the fixed income industry and the work that we're doing with clients there. It's obvious to see that the growth rates from Greenline have not matched the core business, but perhaps that's because the core business growth rates exceeded most expectations over the last four years.

So we still think that fixed certification software solutions are a valuable piece of the overall offering and fit with our business objectives, but the growth rate there has not been as strong as what we've seen in the core.



Howard Chen - *Credit Suisse - Analyst*

Okay. Great. Thanks, Rick. And then just a final one, just a follow-up on what you briefly touched on before regarding issuance levels and your market share. You know, you spoke in the past how right post and new issue a good bit of that business might still be done over the phone. Has that evolved or changed at all with all the structural and cyclical issues going on in the credit markets, and is that any different in your experience in the high-yield market versus the US high-grade market?

Rick McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

I think the impact is similar, and certainly, Howard, you're familiar with that dynamic. When the new issue calendar is active, all the focus in the credit markets is on that calendar. And oftentimes investors have large block swap trades to do to clear room to purchase new issues. And it's highly likely that those transactions are going to be conducted with the underwriters that control the allocations on the new issue.

So there is a slice of that secondary market and a TRACE volume that is directly attached to the new issue supply, and when the new issues are more active than not, that will, all else equal, have a dilutive effect on our overall share.

And I think the key thing is, if you look over time -- and this is why we think quarterly measures of market share are probably a better guide than looking at the monthly stats -- but if you look over time, the share gains continue to be very visible in our business and, based on everything we see going on with investor orders across products, we think that trend is still very much intact.

Howard Chen - *Credit Suisse - Analyst*

Thanks for taking the question.

Operator

Niamh Alexander, KBW.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Hi. Sorry. Just one follow-up on Xtrakter. And I know you've said it's going to be earnings neutral next year anyway, and you're hoping for some accretion in 2014. But for me, it's like leading with the trade analytics has been so important for you to kind of build the business, especially with liquidity so fragmented. So I don't consider it to be utility.

But to understand better in the European context, just TradeWeb, your competitor over there to Bloomberg, do they have to use that data? Does everybody have to kind of report their trades there, yes, or is this something you're kind of hoping for as a rule to kind of get more clear?

Rick McVey - *MarketAxess Holdings, Inc. - CEO & Chairman of the Board*

The primary clients of the regulatory transaction reporting services of Xtrakter are the dealers.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Okay.



Rick McVey - MarketAxess Holdings, Inc. - CEO & Chairman of the Board

So irrespective of where they transact their bond trades in Europe, they would be reporting them in many cases through Xtrakter. There are other approved regulatory mechanisms in Europe today, but the leading provider of those services for the fixed income markets in Europe is Xtrakter.

Niamh Alexander - Keefe, Bruyette & Woods - Analyst

So your competitors would likely have to have access to that information as well?

Rick McVey - MarketAxess Holdings, Inc. - CEO & Chairman of the Board

I suspect that, in terms of some of the data contracts that exist within Xtrakter, some of the competitors that you mentioned are currently utilizing that data, yes.

Niamh Alexander - Keefe, Bruyette & Woods - Analyst

Okay. That's helpful. Thanks so much.

Operator

Thank you. We have no further questions in queue.

Operator

(Operator Instructions).

Rick McVey - MarketAxess Holdings, Inc. - CEO & Chairman of the Board

Well, thank you very much for joining us today, and we look forward to talking to you again next quarter.

Operator

Thank you, ladies and gentlemen. That concludes your conference call for today. You may now disconnect. Have a great day. Thank you.

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