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# EDITED TRANSCRIPT

MKTX - Q1 2015 Marketaxess Holdings Inc Earnings Call

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## CORPORATE PARTICIPANTS

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

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

## CONFERENCE CALL PARTICIPANTS

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

**Hugh Miller** *Macquarie - Analyst*

**Niamh Alexander** *KBW - Analyst*

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

**Ashley Serrao** *Credit Suisse - Analyst*

## PRESENTATION

### Operator

Ladies and gentlemen, thank you for standing by.

(Operator Instructions)

As a reminder, this conference is being recorded April 22, 2015. I would now like to turn the call over to Dave Cresci, Investor Relations Manager at MarketAxess. Please go ahead, sir.

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

Good morning and welcome to the MarketAxess first-quarter 2015 conference call.

For the call, Rick McVey, Chairman and CEO, 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 beliefs regarding future events that by their nature are uncertain. The Company's actual results and financial conditions 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, 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.

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

Good morning. And thank you for joining us to discuss our first-quarter 2015 results.



This morning we reported a strong start to 2015 with record revenues of \$77 million, up 21%, record pretax income of \$39 million, up 39%, and record diluted EPS of \$0.65, up from \$0.46 a year ago. Accelerating market share gains across high-grade, high-yield, emerging market and euro bond products drove our record results.

Our estimated adjusted US high-grade market share was 15.6% for the quarter, up from 13.4% a year ago. We are pleased with the ongoing momentum in our European business with euro bond volumes up over 100% and total trading volumes from clients in the region up 75% year-over-year.

Our record quarter in open trading volumes and participation reflects the value that we are delivering to dealers and investors through our innovative, all-to-all, trading protocols.

Slide four provides an update on market conditions. Increased credit spread volatility drove robust secondary trading volumes in the first quarter. High-yield markets were particularly active sending high-yield trades volumes of 25% year-over-year.

Combined high-grade and high-yield trades volume in the first quarter, represents the best quarter ever for secondary volume since [binrick] introduced trades in 2002. We are seeing a tailwind from secondary market volumes brought on by the large increase in corporate debt outstanding, and the uptick in market volatility.

Improved market volumes and accelerating share gains delivered the record high-grade and high-yield trading volumes on MarketAxess, despite heavy US high-grade nuisance in the first quarter. Taxable bond funds experienced net in-flows during the quarter, while interest rates remain low.

Slide 5 provides an update on open trading. Strong momentum continues in open trading with another record quarter for volumes and participation. Our average daily volume for Q1 was \$300 million, up 187%, compared to the first quarter of 2014. This represented a total of \$18 billion traded during the quarter.

Over 35,000 open trading transactions were completed compared to 11,800 in the year ago quarter, and over 9% of our US trades now take place using open trading protocols. We believe that one of the key benefits of open trading comes from the diversity of liquidity provision.

During the quarter, 346 different firms responded to open trading inquiries, up from 172 in the first quarter of 2014. Approximately 42% of completed open trading transactions were won by traditional asset managers, 39% by dealers, and about 19% by alternative liquidity providers such as hedge funds and ETF market makers.

We are seeing open trading adoption across a range of products with 62% of our trades in US high grade, 26% in high yield and 12% in other products. And we continue to enhance our open trading platform.

Most recently, we added anonymous work-up functionality to our client access protocol to support trading in larger sizes. This new source of all-to-all liquidity is creating efficiencies that deliver real cost savings to our global clients.

During the first quarter, we estimate our clients saw an average of 3 basis points in yield in transaction cost savings for the open trades that were completed. In dollar terms, based on the average maturity of bonds traded on MarketAxess, we estimate clients saved on average \$18 hundred per million traded for high-grade bonds and \$34 hundred per million traded for high-yield bonds. The MarketAxess liquidity pool continues to get more diverse and valuable for both our dealer and investor clients.

Slide 6 provides an update on Europe. We are seeing the results of our strategic investments in Europe through the continued growth of our business in the region. The enhancements to our trading platform, and introduction of unique and valuable data tools, have been well received with trading volumes from European clients up 75% year-over-year.



We added four new dealers to the platform during the first quarter, further broadening our European liquidity pool. This followed the launch in January of open trading for European products. Although it is early days, we are already seeing 24% of euro bond inquiries being sent to the market list open order book.

In February, we launched Axess All, the first intra-day trade tape for European fixed income markets. And last night we announced the launch of a MarketAxess composite price that provides market participants with greater pre-trade visibility into euro bond pricing. Both of these new data products demonstrate our continued commitment to credit market transparency.

This quarter we also completed our build-out of the Trax technology, representing an important milestone in the integration of the two businesses. These developments are driving and growing revenue and earnings contribution from the European region.

Now I would like to hand the call over to Tony for additional details on our volumes and financial results.

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

Thank you Rick.

Please turn to slide 7 for a summary of our trading volumes across product categories.

Our overall global trading volumes were up 30% year-over-year to \$244 billion. US high-grade volumes were a record \$145 billion for the quarter, up 22% from the first quarter of 2014. The majority of the high-grade volume gain was attributable to the 220 basis point increase in estimated market share.

Estimated US high-grade trades volume was up approximately 5% year-over-year. Volumes in the other credit category were up 63% compared to the first quarter of 2014, driven by an over 70% increase in order flow.

We reported record trading volumes for high-yield and emerging market bonds and a more than doubling in euro bond trading volume. Trax and trades data indicate that overall emerging markets and euro bond market volumes were roughly flat, and high-yield market volume was up approximately 25% year-over-year. This means that the vast majority of volume growth in our other credit category resulted from market share gains.

In CDS, average daily trading volume during the first quarter was \$1.8 billion, or 54% above the fourth quarter 2014 run rate; although short-term revenue opportunities remain modest.

Slide 8 displays our quarterly earnings performance. Revenues of \$76.8 million were up 21% from a year ago, driven by the record trading volume and commission revenue. The stronger dollar dampened revenue growth by approximately \$900,000.

Information and post trade service revenue, the majority of which is derived from our Trax business, was flat year-over-year in local currency. We expect modest sequential growth in information in post-trade services revenue as we introduce additional data products and increased trade matching rates.

Technology products and services revenue was down 30%, but the result was consistent with the revenue expectation comments made on our year-end earnings call. Total expenses were \$38.3 million, up 7% from the first quarter of 2014. Absent the impact of the stronger dollar, the expense increase was approximately 10% year-over-year.

Operating margin expanded more than 600 basis points year-over-year and ticked above 50% in the first quarter. The effective tax rate was 36.1% for the first quarter, although the full year 2014 rate of 36.9%.

While there are a number of variables in play, the full-year 2015 effective tax rate is currently projected at the low end of the guidance range of 36% to 38%. Our diluted EPS was a record \$0.65 on a diluted share count of 37.6 million shares. The year-over-year decline in our diluted count was principally due to share repurchases.

On slide 9, we have laid out our commission revenue, trading volumes and fees per million.

Total variable transaction fees were up 43% year-over-year, mainly due to the 30% increase in trading volume and higher overall fee capture. An increase in trading volumes and execution fees from our all-variable fee plan accounted for the sequential change in US high-grade fees per million.

The sequential and year-over-year decline in the other credit category fees per million was due to a mix shift within this category with a heavier weight into euro bond volume and sovereign emerging market bonds.

The \$600,000 sequential drop in distribution fees was mostly due to a decline in unused minimum commitment fees under our all-variable US high-grade fee plan.

Slide 10 provides you with the expense detail. On a sequential basis, all of the non-compensation expense categories were in line with the fourth quarter figures. The sequential increase in compensation and benefits was largely attributable to a higher variable bonus accrual which was tied directly to operating performance and seasonally higher employment taxes and benefits.

On a year-over-year basis, the 14% growth in compensation of benefits was due to a combination of higher variable bonus accruals, wages and equity-based compensation. The year-over-year change in non-compensation costs was consistent with variations over the past several quarters.

Depreciation and amortization increased as a result of the significant investment in product enhancements and technology over the past several years, and professional consulting fees declined. We still expect full-year 2015 expenses will be within our expense guidance range.

On slide 11 we provide balance sheet information. Cash and securities available for sale as of March 31 were \$223 million compared to \$234 million at year-end 2014. During the first quarter, we paid out our year-end employee cash bonuses of roughly \$23 million, the quarterly cash dividend of \$7.5 million and capital expenditures of \$3.5 million.

During the first quarter we repurchased 117,000 shares at a cost of \$8.9 million under our share buyback program. As of March 31, approximately \$53 million was available for future repurchases under the program.

Based on the first-quarter results, our board approved a \$0.20 regular quarterly dividend. There was no change in our capital structure during the first quarter. We have no bank debt outstanding and did not borrow against our revolving credit facility.

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

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

Thanks Tony. The first quarter represents a great start to the new year. The increase in market volumes reflects a small increase in market volatility and a large increase in outstanding corporate bond debt.

For the second quarter in a row, we have seen an acceleration of market share gains across all of our core products. Open trading is already delivering meaningful new liquidity and transaction cost savings to our clients. Now, I would be happy to open the line for your questions.

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions)

Our first question comes from Mike Adams at Sandler O'Neill. Your line is now open.

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### Mike Adams - Sandler O'Neill - Analyst

Good morning guys. I'm starting to sound like a broken record, but congrats on the record results here.

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### Rick McVey - MarketAxess Holdings, Inc. - CEO & Chairman

Thank you Mike.

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

Thank you Mike.

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### Mike Adams - Sandler O'Neill - Analyst

So first, the detail that you guys provided last night on the open trading was really helpful. So, a couple questions on that subject. First, could you try to explain why high-yield customers seem to be more rapidly adopting the open trading, 14% of high-yield volume compared to 8% in IG? Given that there is less electronic penetration in high yield. And I guess I found that surprising. And then the second part of it. Can you remind us what the transaction cost savings are for customers in the traditional disclosed RFQ trade? And I would like to see how that compares to the 3 basis points that you updated us on for the open trading.

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### Rick McVey - MarketAxess Holdings, Inc. - CEO & Chairman

Sure. On the first question, the liquidity challenges in high yield over the last few quarters have been more significant than high grade. And Mike, I'm sure you are aware that is primarily due to the volatility in the high-yield market caused by the significant move in many of the energy issuers. And as a result, I think the attraction and the draw to open trading was greater over the last few quarters.

The other thing we notice in our high-yield business, which we have mentioned in the past is that we do see a significant percentage of high-yield trading on MarketAxess being conducted with the ETF community. And that percentage is higher in high yield than it is in high grade. And that community is also drawn to the open trading order book. So I think for both of those reasons, the percentage of trades in our high yield business conducted with open trading protocols is higher than the percentage of trades conducted in high grade.

What we are doing with the cost savings, is we are looking at the execution price achieved when a trade is won through the open trading protocols and comparing that to the best level available from a traditional liquidity provider. And that leads to the cost saving numbers that we provided both in the release last night and on the call this morning. I need to refresh the data on cost savings, when we were looking at the cover, the price improvement from traditional liquidity providers prior to the launch of open trading, but my recollection is that was around 2 basis points. This is another 3 basis points beyond the best traditional level achieved on the platform.

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

Interesting. Thank you. And then I would like to touch on European operations. So, you mentioned some of the product enhancements this quarter and then even some last night. Have you seen any share pickup since the upgrades? You know whether you are actually taking share from other electronic platforms or the overall market? Is there any way you can quantify that for us?

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

Mike, it's Tony. In the prepared remarks, I mentioned that based on the Trax information we think that euro bond volume is roughly flat, and may actually be down year-over-year. So when you see, for example we have posted for euro bond volume 126% increase in volume year-over-year. We think that virtually all of that is from market share gains. And because the information is not perfect, we think that we are sort of mid- to high-single digits in market share, but that would be double where it was last year.

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

Okay. And you know I appreciate, there's not a lot of transparency today. But do think you are taking it from other electronic platforms or are you taking it from the voice?

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

It is hard to know, but the electronic market in Europe has been growing overall, and it would be our guess that we have taken some share from the other electronic providers in Europe. Having said that, we can do much better in the region. We have not performed up to our expectations historically in Europe. And all the metrics that we can see through Trax trade reporting suggests that Europe needs new sources of liquidity, even more so than the US credit markets, because transaction costs in the European region are higher than they are in the US, and turnover is lower.

So we are really excited about the launch of open trading and the extension of our alliance with BlackRock for open trading into Europe, and the addition of some really valuable data products to provide greater transparency in the region, because we really think that we can provide more value to clients in the region and do a much better job for our shareholders.

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

Okay. And then one other follow up on Europe. Do you have any near-term plans to explicitly charge for the Axess All product, because I believe you are not charging for that today, your sort of seeing it from an increased trading activity.

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

You know, it's a brand-new product so the first step is to get broad market exposure and understanding for the Axess All product, and why it is different than all the other sources of data that institutional investors and dealers are used to using in the region. We will charge for those services in coming quarters. We don't know exactly what the take-up will be, but the first step is to make sure it's broadly available to people, and they understand the data products and over the next several months, we will revisit the charging structure.

We have had a number of large dealers in particular saying that they would like to receive that data through Intra-Day FTP files and we have that underway this quarter. So as Tony mentioned in the prepared remarks, we are optimistic that we will see a modest improvement in data revenues throughout the course of the year and beyond.

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

Okay. Thank you gentlemen and congrats again.

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

Thank you.

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**Operator**

Thank you and our next question comes from the line of Hugh Miller of Macquarie. Your line is now open.

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**Hugh Miller** - Macquarie - Analyst

Hey, good morning.

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

Good morning to you. Welcome back Hugh.

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**Hugh Miller** - Macquarie - Analyst

Thank you. I wanted to start off with one housekeeping question. You gave us some color on the FX impact on the revenue side in the press release. And I know you made some comments on the call, but was wondering if you could just remind us what the impact was on the expense side in the quarter?

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

Hugh, it was, you know I had mentioned that on the revenue side it was about \$900,000. Today, when we look at our -- it's really our sterling-denominated revenue and expenses, they are pretty similar. So the expense impact was also approximately \$900,000.

And you look at the dollar strengthening, and just to put it in perspective, if the dollar went from [one stock six] to [one stock five], which is basically what we saw over the course of the year. For us, on an annual basis, that's \$2.5 million or \$3 million impacts on both revenue and expenses, at least the way our sterling-denominated business is situated right now.

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**Hugh Miller** - Macquarie - Analyst

That's helpful, thank you. And transitioning to some other follow-up questions on Europe, obviously you guys are seeing substantial progress there. Was wondering -- you commented about, obviously driven by market share, and some of which being taken from maybe the other providers there from the electronic sources. We have seen some of those competitors that can be fairly, I guess, competitive from a pricing perspective in some of their other product offerings. What do you guys see as the potential for risk there for them to try and defend market share by competing on price? I know that you guys are providing some services that they do not offer that are, you know, in demand, but can you give us your thoughts on that?

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

Yes. There is consistency in the pricing model for the current leader in Europe electronic fixed income trading. And then it's a bundled pricing model. So their fee structure is all based on the price of the terminal, and whether you look at the swap markets or the bond markets, they do not typically charge explicitly for transactions. So that is their pricing model, which means that in order for us to compete, Hugh, effectively, we have to differentiate our liquidity pool and the quality of the transaction prices on MarketAxess.

And that is why the journey that we are on now to provide investors and dealers with more choice and more outlets to liquidity is so important to our success in Europe. Because what we've seen in the US is that by differentiating the liquidity pool, the transaction cost savings that we can deliver to clients are exponentially greater than the transaction fees that we build into transactions. So it is really important that we continue to improve that we can deliver a better price of execution given the state of the pricing model with the market incumbent in Europe.

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**Hugh Miller** - *Macquarie - Analyst*

That was very helpful, thank you. And I guess looking at the domestic market here and then looking at some trends for April, it looks like, you know, industry ADV, you know, a bit slower on a year-over-year comparison. Was wondering if you could just provide us with some insight as to what you're seeing so far in April and thoughts on market share performance for US high grade?

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

Sure Hugh. So what you are seeing is consistent with what we are seeing. And look at a high-grade volume right now. It is off of the first-quarter run rate for trades. What we are seeing is it's down 16% or 17% or 18% versus the first quarter. High yield is off as well. It looks like it's off 6% or 7%. So the ADV's are down. You know it's a little early right now in the quarter -- or the month. We still have seven trading days left in April here and we don't see anything surprising in share, or in trading volume. But it is a little early to start talking about that market share number more discreetly.

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**Hugh Miller** - *Macquarie - Analyst*

Okay, that is helpful. And as I look at kind of -- you guys have always been opportunistic on the share buyback and you've tried to mitigate the impact of pollution from share grants. Obviously we've been seeing the stock that is doing quite well and appreciating faster than kind of the earnings of the Company, which have obviously been strong as well. But was wondering, can you give us a sense of your appetite for share repurchase as you look at things now? And should we be considering the potential to see maybe some more share creep than we've seen in years past? Thoughts on that would be helpful.

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

Sure Hugh. Consistent with how we've acted in the past, we are more aggressive when we think we're trading at a discounted fair value are discounted to DCF. Your otherwise -- we've been using a program, you've seen that the past several quarters, we're using the program to offset dilution from the equity grants. And just to put in perspective. On those equity grants, we've been averaging somewhere between 200,000 and 300,000 shares per year in those equity grants.

The 10b5-1 grid that we've set up -- we typically act in these share repurchases under an organized 10b5-1 plan, it is price sensitive and that price sensitivity means the lower the share price, the more shares we are repurchasing. And then it works on the inverse, the higher the share price, the fewer shares that we are repurchasing. We are pretty close to hitting our target on diluted share count. And what that tells you, is that what we will be doing here is really continuing to offset dilution from our equity grants and that's what you saw in the first quarter.



**Hugh Miller** - *Macquarie - Analyst*

Okay, that is helpful. Thank you very much for all that insight.

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**Operator**

Thank you, our next question comes from the line of Niamh Alexander of KBW. Your line is now open.

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**Niamh Alexander** - *KBW - Analyst*

Hi, thanks for taking my questions and congrats from me too.

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

Good morning, Niamh.

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**Niamh Alexander** - *KBW - Analyst*

Morning. Back to the market share momentum. Such a strong start to the year, and we didn't even see nearly as much of a dip in the market share if at all, that we would see seasonally and you talked about accelerating momentum as well and I know it's too early to talk about April. But what do you think is driving this? Is it just the train has left the station on adopting electronic trading? Is it people kind of giving up maybe trying some of these new venues that from what we can hear or see is not having much success? And how do you feel about the momentum from here?

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

Yes, I think it's two or three different things over the last two quarters really. One is market volatility is up. Obviously there has been more emphasis and focus on secondary trading. So that is always a good environment for us. You know the first two or three quarters of last year we were dealing with very low volatility, lots of inflows and focus on the new issue calendar. That reversed in Q4 and Q1. And that is always a healthy thing for us and our share.

Secondly, I think the recognition is growing that market structure is changing in credit. That bank-owned dealers do have more constraints on market making because of the regulatory changes that have taken place. And each quarter, especially when volatility picks up, institutional investors feel those changes. And, as a result, I think it's causing a behavioral shift when they are inclined to trade more electronically and explore new sources of liquidity. The third factor that I would suggest is that the success that we are having in open trading is adding more appeal and value to the MarketAxess system. It is increasing the value of the platform to existing clients and it is creating additional opportunities for new clients.

So we see both share growing with our existing clients and the number of participants that are active on the platform growing sequentially. So all of those things I think have contributed to the acceleration of share gains that we are really seeing across all of our core products over the last several quarters.

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**Niamh Alexander** - *KBW - Analyst*

Okay, that's really helpful, thanks Rick. I guess back to the first one, the market environment and the volatility picking up. As it gets, maybe towards rates rising later in the US. And who knows when it happens. But a rising rate environment, it might impact the fees, I think only in the investment grade context; not the other credit context, if that's right. But shouldn't that be a better environment for MarketAxess as well?

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

Niamh, you are right on, you know, the impact on the fee plans. And that is where it's really sort of isolated to the high-grade complex where that rate movement impacts the fee capture. And you're also right that all things being equal, if we had that rising rate environment, you could see some change and a decline in our fee capture. You are also right that, what we may see in this rising rate environment if it is a pick up in volatility, and echoing some of the comments that Rick made, because of the pick up in volatility, we think that's good for market volumes, we think that's good for our share. And while it seems to be pushed off, it seems like the Fed and others are thinking that the rate movements have been pushed back to later this year. You know, if we do happen to hit that rising rate environment that comes with the increased volatility, we're looking forward to it.

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**Niamh Alexander** - *KBW - Analyst*

Okay, fair enough. That's helpful. Thanks. And then, just lastly, you've had other questions on the dividends and the buyback. But you know you're growing the cash nicely here. And just want to make sure that we are still kind of focused on -- is it the best opportunities here are primarily organic growth initiatives and your investment is primarily focused on organic right now so probably likely to build cash, all else equal?

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

Niamh, what you see from us when you look at the opportunity we have in front of us with the core products set. That's the focus today. And you look at the key initiatives which have been pretty consistent over the past several years, and that's around open trading, and the investments that we've made in Europe. The returns there are just difficult to match otherwise.

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**Niamh Alexander** - *KBW - Analyst*

Yes, fair enough.

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

That is where the focus is right now.

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**Niamh Alexander** - *KBW - Analyst*

Okay, thanks so much.

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**Operator**

Thank you, our next question comes from Patrick O'Shaughnessy of Raymond James. Your line is now open.

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

Hey, good morning guys.

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

Good morning, Patrick



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

Curious about reverse Yankees. So obviously a lot of US companies have started to issue bonds over in Europe because of the lower rate environment there. Is that a positive catalyst for you guys? I'm thinking kind of from the perspective of you have a lot of US firms that are used to trading these companies that are over in the US and now they want to trade over in Europe. Is that kind of a source of your market share pick up in Europe right now?

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

I don't really think so. I think that the protocol changes that we have made in Europe and the addition of new and valuable data products are really driving the share gains there. You are right with the rapid drop in the rate environment in Europe, there has been some trend back toward greater growth and issuance in Europe. Having said that, the US high-grade market just finished a record quarter in issuance here. So the issuance environment has been healthy in both regions, and part of that driven by what has been a very active M&A calendar to kick off 2015, which often comes with [that financing].

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

Yes. Thanks. And then I guess to follow-up on Europe. It seems to be the topic de jour. So you talked about how obviously your biggest competitor for electronic trading over there has basically a free model. But is there opportunity for you guys to raise your pricing there over time? Your European pricing is less than half of what your US variable pricing looks like. You are providing that value for your customers. Does your long-term plan assume any sort of upside from pricing in Europe?

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

You know, to be determined. I can tell you that it's not in the scope of plans in the near term. We are really focusing on driving more value to our European and dealer and investor clients through differentiating transaction costs on the system and our data products.

And longer term, we will always revisit all of our fee plans to make sure that they are competitive in the marketplace, and best suited for market share gains and returns to our shareholders. But we would not anticipate any changes in any of our pricing models in the near term.

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

Okay. And the last one for me. It seems like we're seeing headlines from different regulators every other day talking about the stability of the fixed income market including corporate bonds. How much of this is just kind of noise at this point, and how much are there actual, actionable constructive suggestions by the regulators at this point?

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

You know I think that there's a lot of healthy dialogue going on. And what we like is they are reaching out to industry participants to conduct their research and better understand the challenges in the credit markets. But it was interesting, just yesterday Commissioner Piwowar had a speech and was saying, he's very encouraged by all the innovation that he sees in the electronic trading space and he wants to make sure that regulations don't get in the way of that innovation. So we were pleased to see that.

And as I mentioned in prior calls, the first focus that we are seeing from the SEC and FINRA on the corporate bond market seems to be directed primarily at the retail market. But they are conducting lots of research and talking to industry participants and with the SEC in particular, we like the fact that they've got a very constructive approach with the industry and trying to find ways that they may be helpful.



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

Got it, thank you.

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**Operator**

Thank you. (Operator Instructions)

Our next question comes from the line of Ashley Serrao of Credit Suisse. Your line is now open.

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**Ashley Serrao** - *Credit Suisse - Analyst*

Good morning guys.

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

Good morning Ashley.

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**Ashley Serrao** - *Credit Suisse - Analyst*

Rick, as you think about the European option, [your expected] liquidity pool, can you perhaps just compare and contrast the number of dealers you have in the US versus Europe? I'm just trying to get a sense of how many more dealers you could add to diversify the pool there?

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

Sure we have been adding dealers as we mentioned earlier. And the reason it is now easier to add dealers is new dealers can have access to more order flow because of the increase in investor choice that we have provided recently with our European protocols. The total population, Ashley, that we see today is not as great in the US. So if we are 80 or so in the US, we do not see it growing to that number. But there certainly are still 10 or 15 opportunities to add traditional dealer market makers to our European platforms, and we are working on that.

The other thing that I will add, is that because of open client choice and trade inquiries and open trading, we have enabled new dealers to participate in the credit markets in the US, and many of them have become very active participants on MarketAxess. So just by opening the architecture in Europe, we would expect it to attract new capital and new dealers in much the same way it did in the US over the last five years or so.

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**Ashley Serrao** - *Credit Suisse - Analyst*

Okay, that makes sense. Maybe to shift gears to open trading. What are your thoughts around just average trade size as this initiative gains more traction? Do you expect it to build from here?

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

Well, we are certainly investing very heavily in protocols that will help our clients with larger trade sizes conducted electronically. And it is no surprise that the average trade size currently is similar to what it was in our previous protocols. Because most of what it is being used today is a natural extension of our RFQ business, where investors are sending orders to their dealer counterparts at the same time as they're posting orders in Market Lists.



But we are seeing over the last two or three months more take-up in Client Axes, which is a more passive form of posting orders and identifying matches. And just recently we added the work-up capabilities, once that match has been identified. That work-up we think comes with very clever tools to eliminate information leakage. So we match the lowest common denominator between the two parties and don't disclose what else might have been available. And that's the beginning of, we think, focusing more on protocols that are designed around the larger trade sizes.

And this will be an evolution. We are very pleased with the success that we have had, but we have five protocols out today and most of our trading is using one of those protocols. We will enhance what we already have out, and we will continue to add new protocols. And we are speaking to dealer investor clients every day to get their input, and we think over the next year or two you will see more innovations from us in some of those specifically designed at large trade sizes.

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**Ashley Serrao** - *Credit Suisse - Analyst*

Okay, and finally a question for Tony. Can you just remind us what the average pricing of the three products in other credit buckets currently stand at?

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

Ashley, the pricing does work differently for each of those product groups -- euro bonds, emerging markets and high yields. You know, even within euro bonds, for example, we have several fee plans working there, much like we do in the US where we have one plan that is a combination of distribution fees and variable fees. We have another plan which is all variable. Even between emerging markets there is different pricing for corporates and sovereigns. For high yield bonds, the pricing looks different for bonds that trade on price versus bonds that trade on spread.

I'm not going to provide all of the granular details there. I will tell you that as expected, given the bid offer on high yield for example, the higher fee capture in that product category comes from high yield. And then at the opposite end of the spectrum in that group would be euro bond. Across that spectrum, it probably runs from \$100 at the low end to something closer to \$600 per million at the high end.

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**Ashley Serrao** - *Credit Suisse - Analyst*

That's very helpful color from both of you, thanks for taking my questions.

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

Thanks Ashley.

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**Operator**

Thank you and our next question comes from Mike Adams of Sandler O'Neill. Your line is now open.

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

Hey guys. Just a couple follow-ups from me.

First to build off Ashley's question. Would you mind commenting on the mix of the other credit volume in April? I know it's only a few weeks here but I'm curious if the euro bond momentum continues to increase in terms of the overall mix.



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

Mike, it's a little bit early on this. What I mentioned before is that there is really nothing we are seeing in April that stayed consistent with the first quarter.

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

Okay, and then Tony one other one for you. In regards to the distribution fees you talked about a decline in unused commitment fees in the first quarter, which I guess makes sense given how active the trading was on the platform. Were there any unused commitment fees recognized in 1Q? I'm just trying to figure out, could there be another step down?

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

It's a good question, Mike. And just as a reminder, under our all-variable plan, your dealers are paying a variable fee and then there's this execution fee which is subject to a minimum commitment. And we do have a level and it was around \$750,000 of unused commitment fees. The better news would be if that unused commitment fees were zero. That means that all of our dealers on that particular plan are active and trading.

It could swing, you know. It's tough to predict what will happen going forward on the distribution fees, and on these unused minimum commitments. There could be some movement going forward. If there is movement on that, and you see the all-variable plan dealers like what you saw in the first quarter, if you see them winning a larger percentage of our trades. You know there could be a decline in distribution fees. But that would largely be offset by an increase in variable transaction fees. So it's a bit neutral overall, but it would impact the individual categories.

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

Sure. Great, thank you Tony.

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**Operator**

Thank you. I'm showing no further questions at this time. I would like to hand the call back over to Mr. Rick McVey for closing remarks.

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**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.

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**Operator**

Ladies and gentlemen, thank you for participating in today's conference. That does conclude today's call. You may all disconnect. Have a great day everyone.

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