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CORPORATE PARTICIPANTS

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

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

Tony DeLise *MarketAxess Holdings, Inc. - CFO*

CONFERENCE CALL PARTICIPANTS

Jillian Miller *BMO Capital Markets - Analyst*

Patrick O'Shaughnessy *Raymond James - Analyst*

Niamh Alexander *KBW - Analyst*

Hugh Miller *Sidoti - 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, January 30, 2013.

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 fourth-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 their nature are uncertain. The Company's actual results and financial condition may differ materially from what is indicated in those forward-looking statements.

For a discussion of some of the risks and factors that could affect the Company's future results, please see 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 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. - Chairman & CEO*

Good morning and thank you for joining us to discuss our fourth-quarter 2012 results. This morning we reported our fourth-quarter and full-year financial results which showed continued growth in revenues and earnings driven by marketshare gains in our core products.

Revenues for the quarter were $50.4 million, up 12% from $45.1 million a year ago. Revenue growth was driven by record variable transaction fees, which were up 36% to $29.8 million from $22 million one year ago. Adjusted diluted EPS was $0.36, up from $0.29 last year.

We achieved record estimated high-grade marketshare of 13.6% for the fourth quarter compared to 12.2% one year ago. We also saw another record quarter for combined emerging markets and high-yield volumes, which were up 66% year over year.

We are pleased with the increased client participation in our open trading initiatives. During Q4 39% of all investor inquiries on the system were placed into the market list order book where both dealers and other investors can transact. We are also on track to complete our acquisition of Xtrakter in Q1 and we remain enthusiastic about the combined capabilities we will be able to deliver to our European clients.

Slide four displays some details on our quarterly results and financial strength. In 2012 we once again achieved record annual revenues of $198.2 million, up 9% from $181.1 million in 2011. Our adjusted diluted EPS was up 17% to $1.41.

EBITDA was up 11% to a record $95 million for the year and operating and EBITDA margins were 44% and 48%, respectively. Free cash flow was a record $71.2 million, up 22% from the prior year. Given our strong free cash flow and continued growth in earnings, our Board of Directors has declared an increase in the regular quarterly cash dividend to $0.13 per share from $0.11. This increase in the quarterly dividend follows our special dividend of $1.30 per share in December.

Our cash and securities balance at December month end was $180 million or $4.76 per diluted share.

Slide five provides an update on market conditions. High-grade TRACE of volumes were up 12% year over year in the fourth quarter and 2012 full year TRACE volumes were roughly in line with the previous three years at approximately $3 trillion. Flows into taxable bond funds also continue to be very strong with inflows of $60 billion in the fourth quarter.

High-grade and high-yield corporate debt outstanding continues to grow rapidly. During 2012 corporate debt outstanding grew 5% and is now up 23% since the beginning of 2009. (inaudible) dealer holdings of corporate debt for market-making ended the quarter at $57 billion and continued to reflect balance sheet constraints due to new regulatory capital requirements.

The growth in the overall corporate debt market and the decline of dealer balance sheets creates the need for new electronic liquidity solutions in credit markets.

Slide six summarizes the trading volume across our product categories. Overall, global trading volumes for 2012 were $590 billion, up 12% from 2011. Global volumes in the fourth quarter were $149 billion, an increase of 19% year over year. US high-grade volumes were $93 billion in Q4 2012, up 23% compared to the prior year quarter.

Our increased volumes were due to a combination of marketshare gains and an 11% year-over-year increase in TRACE volumes. Investor order flow volume increased 13% and hit rates were fairly stable.

Volumes in our Other product category increased 16% year over year to $48.4 billion in the fourth quarter. Emerging market and high-yield volume growth was especially robust, up 66% in the fourth quarter, driven primarily by marketshare gains. Eurobond volumes and volumes traded by European clients were flat in Q4 compared to the prior year.

CDS volumes were roughly flat in Q4 from Q3 levels and well above prior-year volumes. January TRACE volume is roughly on par with last January. Our month-to-date high-grade share in January is currently up from last January but below Q4 levels.

We are seeing the normal seasonal decline from the fourth quarter combined with a very active new issue calendar. EM and high yield volumes in January are above the fourth-quarter pace.

Slide seven outlines the strategy for growing our European business. As mentioned last quarter, we view Xtrakter as a strong fit with our core business and our strategic vision. Through the integration of the two companies we believe we will have a highly compelling offering in Europe comprising unique pre-trade data, a broad range of electronic trading protocols, and valuable post-trade services.

We are exploring opportunities to leverage Xtrakter's extensive intraday and historical data to provide our dealer and investor clients with better tools to manage credit trading risk. We will work closely with the industry and regulators as new rules for trade price transparency move forward. We also expect to expand trade matching services as the industry prepares for T+2 trade settlement.

We are expanding our open trading and dealer-to-dealer trade services into the European region to complement to our core client-to-dealer RFQ trading. Fuller integration of these trading solutions with Xtrakter data and post-trade services will better differentiate our European product offering. We still expect the acquisition to be EPS neutral in 2013; however, even modest realization of potential data revenue synergies would drive valuable earnings accretion in 2014 and beyond.

Slide eight outlines the opportunities for increasing marketshare in our core products. In our core client-to-dealer high-grade RFQ business, an 18% increase in investor order count in Q4 was the key driver of our record estimated marketshare. Block trading volume as a percentage of TRACE continues to decline, which we view as favorable for electronic trading growth.

Investor adoption rates continue to improve for our open trading initiatives. In addition to the increase in high-grade market list orders, we also expanded market lists into high yield and the emerging markets and rolled out clients' access to a broader group of clients during the fourth quarter.

While still a small part of overall volume, approximately 400 investor-to-investor trades were completed in the fourth quarter, up from 200 in the third quarter. We are pleased with the progress on dealer-to-dealer trading through DealerAxess. Q4 volumes on the platform were up 38% compared to the third quarter and almost 7,000 trades were conducted during the quarter.

Now let me turn the call over to Tony for additional detail on our financial results.

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

Thank you, Rick. Please turn to slide nine for some perspective on our full-year results. A 25% increase in variable transaction fees was the driver behind the 9% overall revenue growth in 2012. High-grade emerging markets and high-yield marketshare gains accounted for the increase in variable transaction fees.

Overall, US high-grade TRACE volumes were around $3 trillion, marking the fourth consecutive year at this level. Expenses were up 9% in 2012, slightly above our five-year trailing average. We are investing more heavily to respond to market structure changes and the growing addressable market.

In addition to our investment in Xtrakter, we increased our direct operating expenses and software development spend for new initiatives. Adjusted diluted earnings per share were up 17% and has now increased over six-fold since 2008.

Slide 10 displays our quarterly earnings performance. Revenues of $50.4 million were up 12% from a year ago driven principally by trading commission growth. Similar to the full year discussion, marketshare gains accounted for the majority of the commission increase.

Total expenses were $28.9 million, up 10% from the fourth quarter of 2011. Fourth-quarter expenses include Xtrakter acquisition-related costs totaling almost $1 million. Pretax income was $21.5 million in the fourth quarter, up 14% from last year.

The fourth-quarter 2012 results include a nonrecurring favorable income tax adjustment of $6.7 million, or $0.18 per share, related to certain acquired tax loss carry forwards. Approximately one-half of the adjustment relates to the reversal of a previously established tax reserve and the remainder relates to the recognition of additional tax loss carry forwards to be used to reduce future income tax payments.

Excluding this item, our effective tax rate for the full year 2012 was 38.5%. Our adjusted diluted EPS was $0.36 on 37.6 million diluted shares. Shares repurchased during the fourth quarter did not materially impact the diluted share count.

On slide 11 we have laid out our commission revenue, trading volumes, and fees per million. US high-grade fees per million were $193 in the fourth quarter, consistent with the prior-year level and down from $203 in the third quarter. The sequential drop in US high-grade fee capture was principally due to a decline in years to maturity of bonds traded on our platform.

The other product category fees per million were $232 in the fourth quarter of 2012, up from $166 a year ago and from $216 in the third quarter. Higher fee capture emerging market and high-yield volume accounted for the increase and represented 63% of the other product category volume in the fourth quarter compared to 47% one year ago and 60% in the third quarter.

Distribution fees were $14.4 million in the fourth quarter of 2012, down 14% in the fourth quarter of 2011 and down slightly from the third-quarter level. We currently expect that first-quarter 2013 distribution fees will be consistent with the fourth-quarter level.

Slide 12 provides you with the expense detail. Total expenses for the fourth quarter were $28.9 million, up 10% from a year ago. The full year 2012 expenses of $111.5 million were in line with the guidance we provided on the third-quarter earnings call.

The year-over-year increase in depreciation and amortization reflects a significant capital software development and equipment spending in the past several years. The year-over-year and sequential increase in professional and consulting fees is attributable to the Xtrakter transaction costs and higher legal fees. We expect Xtrakter transaction costs to total $2.5 million, of which approximately $1 million will be recognized in the first quarter of 2013.

On slide 13 we provide balance sheet information. Cash, cash equivalents, and securities available for sale as of December 31 were $180 million compared to $248 million at year-end 2011 and $204 million at September 30, 2012. We remain focused on capital management and returned a total of $140 million to shareholders through share repurchases and dividends during 2012.

Our recurring quarterly dividend remains an active part of our capital management priorities. We have now increased the quarterly dividend in three consecutive years. Last year's share repurchases have been accretive to earnings and we have approximately $6 million in authorized capacity under our existing share repurchase program.

Through our existing cash position, strong free cash flow generation, and new $50 million line of credit we have the flexibility to meet our capital management priorities. There was no change in our capital structure during the fourth quarter and we continue to have no bank debt outstanding.

On slide 14 we have our 2013 expense capital expenditure and income tax rate guidance. Excluding the impact of layering on Xtrakter operating expenses, we expect that total 2013 expenses will be in the range of $118 million to $123 million. The midpoint in that range suggests an 8% increase in expenses.

As Rick mentioned, we expect that the Xtrakter acquisition will close in the first quarter. Xtrakter's monthly operating expenses are projected to be approximately $2 million, inclusive of the amortization expense associated with acquired intangible assets.

Capital expenditures include computer software and equipment, capitalized software development costs, and data center buildout costs. We expect that capital expenditures will be between $10 million and $13 million in 2013. We expect that the effective tax rate for the full year 2013 will be between 38% and 40%. Among other items, the mix of US and foreign source income and change in income tax rates could cause variations in the effective tax rate.

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

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

Thanks, Tony. The 2012 full-year results show continued growth in trading volume, revenue, and earnings in our core products. Our free cash flow is allowing us to make valuable investments in new electronic marketplaces at the same time that we are returning more capital to our investors through increased dividends and share repurchases.

2013 will be an important year to maintain growth in our core business while simultaneously investing in new long-term growth opportunities in Europe, open trading, and derivatives. We believe the investment areas will significantly increase our addressable market in the years ahead.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jillian Miller, BMO Capital Markets.

Jillian Miller - *BMO Capital Markets - Analyst*

One of the biggest unknowns I guess with respect to Xtrakter and how much data you are going to be able to supply how soon is that it depends on what the dealers in Europe are comfortable with. So just wanted to get a sense, assuming you have potentially been in dialogue with some of them now, on what incremental you think you are going to be able to offer in 2013. When that might phase in versus what is to come in 2014.

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

Sure. It is an important point. Our new Xtrakter colleagues are already working very closely with the dealer community on data initiatives through trading associations like AFME. I think our goal will be to continue to work with dealer clients as we promote more data products in the European region.

I think, Jillian, as a starting point there is very little controversy about providing better tools around historical trade data and also better real-time data around the most liquid Eurobonds. So I think that there is plenty of value that we can add along the way in working closely with that dealer community. Providing the acquisition does close this quarter as we would expect, we will be working on those data initiatives immediately and we would expect that some of the new data products would start to kick in in the second half of this year.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay, that is helpful. Then we have seen the 10-year treasury yield pick up pretty meaningfully in January and I noted that is potentially a negative or creates a negative pressure on your high-grade fee rate. But I just wanted to get your thoughts on kind of where it could go in 2013.

I mean the fourth-quarter yield was up like 4% and the fee rate was down 5%, but I don't know if it is appropriate to read too much into that correlation. So maybe you could just remind us on how we should be thinking about the relationship between those two.

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

Jillian, it is Tony. So, first off, there is lots of items or lots of factors that influence our US high-grade fee capture. So it is not only duration, it is not only years to maturity and yield, but also that dealer mix. Specifically the execution fee from the all variable dealers; also trade size. We do have a tiered pricing plan so the larger the trade the lower the fee.

So it is not just duration necessarily. But nonetheless we have seen yields pickup in the last four to six weeks here. Having said that when you look at absolute yields the increase in the 10-year, for example, has been offset mostly by a tightening of spread. So when you look at the absolute yield numbers it really hasn't changed all that much.

For us when we look at years to maturity there is a -- looking back over the last eight or nine years we do see a pretty high negative correlation between the direction of yields and years to maturity. So, for example, in a rising yield rate environment our years to maturity typically goes down and when yields are declining years to maturity goes up.

But when you look at the sensitivities around that it is years to maturity probably has more of an influence as opposed to absolute yields. What you did see and what you did observe in the fourth quarter, for us you saw that US high-grade fee capture was down around $10 per million. And most of that was around years to maturity, a decline in years to maturity, as opposed to the yields necessarily.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay, that is helpful. Then one final one for me. There has been some discussion in the industry about what impact Dodd-Frank clearing implementation might have on buy side holdings of corporate bonds. I guess the concern is that firms might need to shift out of bonds into cash in order to be able to get the necessary high-quality collateral to post in March.

So I was just wondering if you could run through what your expectations are, what you are hearing from your clients, and how you see the collateral crunch impacting the corporate bond markets overall?

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

Happy to address that. I think, Jillian, you might be referring to an article out in the FTE about the potential impact on pension funds of the new collateral requirements for cleared swaps.

Jillian Miller - *BMO Capital Markets - Analyst*

Yes.

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

I do think a couple things. Our initial reaction to that is that is mostly a European pension fund phenomenon, less so in the US, as so many US pension funds over the last 20 years have moved to defined contribution as opposed to defined benefit. So, in my opinion, the pension fund activity in the swap markets in the US is a relatively small part of the overall market. As a result, I wouldn't expect that there would be a significant change there.

It is something to watch in Europe as the European swap markets move more towards central clearing, but in the grand scheme of things we really do not expect that to be a significant change. The big macro factors really are the increase that we are seeing in corporate debt and the increase in assets in credit markets that are coming, not just from pension funds but they are coming from sovereign wealth funds, insurance companies, mutual funds. So the market continues to get larger and most people expect that that trend is likely to continue.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay, got it. Thank you.

Operator

Patrick O'Shaughnessy, Raymond James.

Patrick O'Shaughnessy - *Raymond James - Analyst*

So kind of building off of that last point, I think one of the big themes out there the last few weeks has been the expectation that we are going to see a big shift of flows coming out of corporate bonds and back into equities. And I think part of that is field related and part of it is just kind of performance in the market.

So if we do see that shift what sort of impact do you think you might see on your marketshare on and on overall industry-wide trading volumes?

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

So far there is not really any tangible evidence that that is happening. You look at the fund flows they remain very healthy on the taxable fixed income side right through January.

If there is fund outflows, and we haven't seen that in the last three years or so, I would expect that that would come with a widening of corporate bond spreads, but remember mutual funds, which is where we are tracking the taxable bond fund flows, are only one component of the asset side of the corporate bond market. The insurance companies have been getting larger. As I mentioned, some of the sovereign wealth funds have been getting larger so there are other important flows beyond just the mutual fund flows.

Patrick O'Shaughnessy - *Raymond James - Analyst*

Okay, that is helpful. Moving on to competition, certainly a key risk that has been talked about over the last few quarters has been the launch of competitive electronic trading platforms. It seems like a new one comes out every week or two.

Can you kind of talk about what sort of reaction you think the marketplace has given to these new offerings, if they've got any traction so far? And how you think that your open trading solution is stacking up against them?

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

I would be happy to. Our information is all anecdotal. Many of those newer initiatives, to our knowledge, are not really reporting activity on a regular basis. But I think they are finding that developing a new marketplace and getting institutional attention on those new solutions is a long process.

I think there are two things that the newer platforms are battling. One is the length of time to get market attention and traction on a new platform. Secondly, the large change in behavior that is involved with promoting some of the investor-to-investor matching solutions.

What we are seeing is that I think we have a couple of advantages. We have an installed very large base of institutional investors and dealers already on the MarketAxess system and we have a large base of order flow already taking place through our traditional core products. So adding on to that some of the open trading solutions, in our opinion, is an easier path than trying to start something new from scratch.

I also think that, as you are aware, Patrick, that some of the new solutions are promoted by single dealers or single clients or small groups of clients. And I continue to believe that independents and a large installed network both provide a large competitive advantage, where we are able to offer these services to all dealers and investors as opposed to a subset of the credit markets.

So while we are gaining traction in market lists today, client-to-client trades that can be cleared through any dealer on the system are still a small part of overall volume. But, again, anecdotally we believe that the traction that we are seeing in those initiatives is greater than anything that else that is taking place competitively.

Patrick O'Shaughnessy - *Raymond James - Analyst*

Okay, that is fair. Then I guess to push on that last point that you were talking about, so slide eight I think kind of showed a nice chart of what percentage of your inquiries were actually utilized in the market list functionality. It looks like it was up to 40% in the fourth quarter.

And yet I think the number of matched client-to-client trades was 400, if I heard that correctly. So does that kind of suggest that it is just really, really hard to cross client trades and just always going to remain a dealer-driven market? Or is there something that -- as that 40% goes up to 60% and 80% you're going to start to see more hits across the client-to-client space?

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

I think it is actually something a little bit different, Patrick. This is an enormous behavioral change for investment managers. In fixed income for all of our careers the trading process has always been investment managers in the buy side asking for competitive quotes from dealers, either by phone or electronically, and the dealers are the ones that make prices.

With the constraints on the dealer balance sheets now and the limited capacity that they have for market-making what investors are contemplating is a new market structure that requires that they be price makers. I think what you are seeing is that they acknowledge that they need to go there, which is why the order flow on market lists is growing virtually every month, but they are not yet positioned at the other end to put a price on an inquiry or a bond in a normal three-, four-, or five-minute corporate bond inquiry.

But we see them taking steps to change that, because ultimately if they are going to be part of the solution to get turnover levels back up in corporate bonds they are going to have to be in a position where they can respond and make prices rather than just inquiring on prices. This is why I think it is going to be a very important part of the new market structure and the new liquidity model, but I also think it is going to be a multi-year process in terms of changing that behavior so that investor-to-investor transactions can be part of the liquidity solution.

Patrick O'Shaughnessy - *Raymond James - Analyst*

All right. Thank you and I will jump back in the queue.

Operator

Niamh Alexander, KBW.

Niamh Alexander - *KBW - Analyst*

Thanks for taking my questions. Quick questions on the [recur], especially in the other line, because that just keeps marching north. It was like 40% up year-on-year, up 7%. You have had a real beneficial shift of the mix there. I am just wondering how should we think about -- could it be another 40% higher this time next year, or are we kind of getting towards now where that lower fee agency mix is kind of small enough that we shouldn't see this kind of an increase?

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

On that other fee capture, it really is driven by the mix within that category. So we haven't seen any appreciable shift in the fee capture for the individual products. So between emerging markets, high yields, agencies, the three main products, the fee capture individually hasn't changed. It is just that we have a situation where EM and high yield are growing significantly.

Rick mentioned 66% year-over-year. Full year, EM and high yield were up over 40%. And on the flipside we have agencies where a combination of two things now; you have overall TRACE agency volumes, for example, in the fourth quarter were down something north of 12% in the fourth quarter.

And then our marketshare has stagnated on the agency side, so our marketshare has been flatlined for the last five or six quarters on the agency side. When you look at the yield in agencies right now, our clients aren't very active in that market.

Could that continue? As Rick mentioned, we think those trends in high yield and emerging markets will continue. Whether or not we can generate another 40% plus increase in the absolute fee capture, it is going to be dependent on that mix. If you have the same dynamics with EM and high yield marketshare growing and agency volumes flatlined, it is possible.

Niamh Alexander - *KBW - Analyst*

But I guess where I'm going, Tony, is if the agency volume is a small enough portion of it now that if you don't change your fees, all others equal, you don't have as much upside in the fee, like if the agency makes itself small enough. But it sounds like it is still a big enough part that if this stagnates and the others still grow, then you're still more upside to the fee capture.

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

Yes, and even look at the fourth quarter, agency volume was still almost 40% of the fourth quarter.

Niamh Alexander - *KBW - Analyst*

Of the other revenue line?

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

Of the other revenue, right. So you look at the volume, it is almost 40%. So it is still a pretty sizable percentage of that other volume.

Niamh Alexander - *KBW - Analyst*

Okay, fair enough. Thanks for that. And then I guess just on the credit derivatives and on the SEF, we have -- just because the regulators keep pushing back the timetable, the (inaudible) data with all of these other things, is it realistic now not to just model much of any revenue this year for that? Or should we think about maybe starting to report volumes on the credit trading that you are seeing in the [start for charge] revenue at some point this year?

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

Good question. It certainly has been a moving target. The CFTC and we and others are meeting them regularly, continue to say that they are on the verge of finalizing the SEF rules. As you know, they said they had hoped to get them out by the end of last year. They missed that deadline.

We know that there are active discussions going on with the commissioners on the open items, and they continue to say that they hope to have those SEF rules finalized this quarter. We would expect that the implementation period for SEF rules on CDS index swaps will probably be somewhere around 4 to 6 months. So it is possible that we would be in that new SEF regulatory regime sometime in the second half of this year.

On the other hand, and as you know an important component of the regulatory change, we have heard very little from the SEC and there are some important changes taking place there. So it would be harder to predict at this point when the SEC will finalize the single name CDS rules.

Niamh Alexander - *KBW - Analyst*

Fair enough, and that from our perspective is really important because if the indexes look increasingly like they might migrate to futures, then is it fair to think that the single name is more your target market area?

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

Both are target areas, and we are offering electronic trading in index products as well as single name, and now options on indices as well. So we think we have a comprehensive solution. But we would also agree with you that when you look at our strengths in corporate bond trading, it may well be that our competitive advantages are going to come through most clearly in single name CDS. But a lot of unknowns there in terms of the potential for CDS index futures, how that affects the OTC index market and the timing of the final regulations.

Niamh Alexander - *KBW - Analyst*

Okay, thanks, Rick. I appreciate it. And then just last two. One, central limit order book, I am curious as to maybe why you are building one out and kind of progressing, just given the liquidity in that market. Help me think about what products or maybe what portion of the market do you think would end up kind of trading with streaming liquidity in a CLOB?

And then secondarily while it is not related, but through regards to the balance sheet, you still have quite a lot of cash, you have the deal to close. But it seems to me after the credit agreement you have in place too, you have some capacity for some more deals. So help me think about your appetite, your interest, management's time capacity, given that you have to integrate Xtrakter as well. Thanks.

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

Those are two very different questions, so I will take a crack at the first one and then Tony can talk about capacity on capital management and cash. But just to be clear, your question on central limit order book, was that relating to the CDS market or the bond market?

Niamh Alexander - *KBW - Analyst*

Bond market. Am I understanding correctly that you are thinking about rolling one out in the bond market?

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

We are. I think we have some of the key ingredients coming together in terms of live pricing that is increasingly coming in from dealers, albeit in smaller trade sizes; and significant interest that is beginning to develop both on the buy side and the sell side. And our view is that the trading solutions will not be one-size-fits-all, which is why we really like our strategy of having a menu of trading protocols ranging from our core client to dealer RFQ to multi-dealer streaming to market lists and client access, and also part of that equation will be a central limit order book.

And we think depending on the liquidity, the instrument and the size of the trade, there are merits to each of those solutions. And that technology is largely ready to go. We are talking with our clients about how and when they would like to see that rolled out, but we would continue to expect that during the course of this year a central limit order book will be part of the menu of choices on the market access system.

Niamh Alexander - *KBW - Analyst*

That's interesting, Rick. Is it kind of a sub 10% of the market right now that you think could get to streaming bids and asks and enough liquidity?

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

I think if you look at the top 20 or 30 corporate bonds, they do represent a higher percentage of overall trades than what you have outlined. If the market starts moving toward an open central limit order book model, the potential there could be greater. And I don't think that we are trying to predict with perfect foresight how the market will adopt different trading protocols, but we do see consensus among investors and dealers that the market needs to embrace more open trading protocols.

The decline in turnover in the credit markets is negative for investors and dealers, and it is highly unlikely that the primary dealer balance sheet capacity is going to change and improve anytime in the near term. So we feel that we have an obligation to the market to continue to innovate and provide those technology solutions, and we are being very responsive to our clients in terms of the different protocols that they think could be part of that solution.

Niamh Alexander - *KBW - Analyst*

Fair enough. Thanks, Rick.

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

On the capital management question, just first taking a step back, we did return $140 million of capital to shareholders in 2012, including the $50 million special dividend in December. And we expect to fund the Xtrakter acquisition, which at today's exchange rates will be something like $40 million. We will do all of that without borrowing any money.

Second, as you observed, we still have a sizable cash position. We expect to generate significant free cash flow in 2012. And when we look at our capital management priorities, we think we can meet all of our capital management priorities within the context of that cash position and our free cash flow generation.

And those priorities haven't changed and we have talked about them in the past. It is regulatory and working capital, including any SEF working capital requirements or SEF regulatory capital requirements. It is new initiatives like CDS and open trading and dealer to dealer. It is the dividend which we have in place, share repurchases, and selective acquisitions as well.

On the dividend side, you saw that we increased the dividend. That is an important part of our capital management program. The board did take a look at the dividend level and still felt comfortable around the target of paying out around one-third of free cash flow. If you look back over time, that recurring quarterly dividend and the increase in that recurring quarterly dividend has just about matched the increase in our recurring cash flow.

So if you look at our recurring cash flow from 2009 to 2012, it almost doubled. If you look at the recurring dividend now, that's almost doubled as well.

On the buyback side, we still have some capacity left under the $35 million program that the board authorized back in the fourth quarter of 2011. We repurchased some shares in the fourth quarter of 2012. We have a 10b5-1 grid in place. We are buying back on a price-sensitive basis against that grid. So it is still both repurchases and dividends are an active part of the discussion with the board, an active part of our capital management program.

Things like acquisitions, we have got the capacity again with the cash, with our free cash flow. And now with the added capacity with the line of credit, we do have some increased flexibility there. If there is an acquisition with the same sort of characteristics and great fit that we think Xtrakter had, if something like that comes along we have the capacity to act in an opportunistic way. So we feel pretty good about our financial position and the ability to respond opportunistically.

Operator

Hugh Miller, Sidoti.

Hugh Miller - *Sidoti - Analyst*

Good morning. Just I guess had a follow-up question on the behavioral shift you guys are talking about amongst institutional investors becoming more price makers, and was wondering as you think about that; and obviously you mentioned it is going to be a multiyear type of change. But what do you guys need to do to help really facilitate that? Are you developing any additional analytical tools that these investors can then use to become more comfortable in making markets, or how do you view that kind of a shift?

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

Good question. I think there are a number of steps in that. The first step is to make a larger percentage of order flow available to a larger group of market participants. I think if you look at the last two quarters, we feel pretty good about step one, moving from what was about 15% of order flow going into market lists in the second quarter to 40% in the fourth quarter, I think demonstrates real progress in broadening the reach of where that order flow goes and who can participate on the other side.

The second part, Hugh, I think is doing anything we can to provide quality, real-time data products broadly to the marketplace. We have done that in the US with our bond ticker products. We hope to move in the same direction, again working alongside the industry in Europe with the new data capabilities that we have with Xtrakter. And there are also other industry solutions around data products, not just for bonds that have traded but on a modeled approach for bonds that may not have traded during the day. So providing those tools is a critical part.

We are also continuing our client outreach on alternative market makers that may start to come increasingly from the growth in the ETF market-making community, some people that have been active making markets electronically in other asset classes that are now looking at credit. So doing everything we can to enable that community to participate in core credit card products is also part of the solution.

Hugh Miller - *Sidoti - Analyst*

Okay, appreciate the insight there. Obviously, you commented about the timetable and what you view index CDS trading, and so I would suspect the resignation of CFTC Commissioner Sommers really wouldn't have that much of an influence, assuming that does remain on that timetable for 1Q. But does that dynamic play a factor longer term at all with regards to your opportunities for CDS trading for index?

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

We don't get any sense that the overall direction of regulatory reform for derivative trading is changing. It is just that the timetable keeps moving out, and I don't think one commissioner is likely to change that path. As you point out, Commissioner Sommers, as I understand it, is set to be there until April. And by all accounts, they expect to get through the first round of SEF rules while she is still there. So I think the trend is still in place on providing more transparency in competition and electronic execution and swaps, and the open question is when will the rules be implemented.

Hugh Miller - *Sidoti - Analyst*

Okay. And the last question I had, you provided a little bit of color on the potential for marketshare in January. Was wondering if you happened to have any detail on what you have seen duration do of the bonds traded on the platform so far in January relative to 4Q, just given some of the shifts we have seen in the yield curve?

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

It is one month into the quarter right now. Just in terms of January, nothing appreciable has changed there in terms of years to maturity. And even when you look at things like TRACE volume, the dealer-to-dealer max and block trades, really nothing all that appreciable even in the broader context that way.

Hugh Miller - *Sidoti - Analyst*

Okay. Thank you very much.

Operator

Howard Chen, Credit Suisse.

Howard Chen - *Credit Suisse - Analyst*

Good morning, Rick. Good morning, Tony. Rick, you touched on the broader theme of constrained dealer balance sheets, but we did see that first meaningful upward inflection in corporate balance sheets during the quarter. So I'm just wondering, one, how do you think that impacted hit rates if at all? Then two, if that trend continues does that signal anything meaningfully to you?

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

You are right, we have had a small bounce off of a low of about $40 billion in the aggregate primary dealer balance sheets for corporate bonds. But in the context of those balance sheets declining from $250 billion to $40 billion and bouncing to $57 billion, I think it still reflects a significant change in dealer capital available for market making.

And as far as early signs this year, we are getting a very active new issue calendar in January. It looks like we will come in well above last January. And during those periods, obviously the underwriters are very involved not only in distributing the new issues but also doing swap trades with their clients that over the short term can cause increases in the balance sheets. But I think that increase is largely irrelevant versus the large trend of the deleveraging that has taken place over the last three years.

Howard Chen - *Credit Suisse - Analyst*

Understood, thanks. One of the other secular trends you had noted over the last few years, Rick, is smaller trade sizes. So could you just update us on how that is progressing from everything that you can see?

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

What we are tracking and talk about most frequently is the block trade sides and block trade percentage of TRACE. And you look back now over the last three quarters, it has been right around 38% or 39%. So it has dipped significantly in the past two years. It dipped significantly from the first quarter of last year, but it is hovering around that 38% or 39% for Q2, Q3 and Q4.

So far in January at least that what we can observe, yet to be finalized over these next couple of days, it looks like it is around 40% or 41%. It doesn't surprise us necessarily, given the very healthy new issue calendar, but think about at least for January to date right around that 40% range.

Howard Chen - *Credit Suisse - Analyst*

Right, that makes sense in the context of what Rick just said. And then switching over to expenses, on that 8% expected expense growth midpoint, can you just help us, Tony, bucket that expense to maybe, one, incremental investment spending; two, any higher comp accrual given what you are expecting for core franchise growth; and then three, I guess other buckets that the first two wouldn't encapsulate?

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

Sure, sure. So on the prepared remarks, we mentioned guidance excluding Xtrakter of $118 million to $123 million. Midpoint was around 8% increase, and that is pretty close to the historical growth rate. If you look back from 2007 to 2012, it is probably right in that 8% range.

But when you look at the absolute dollar increase from 2011, for argument's sake, it is $9 million or $10 million. As expected, most of that is in comp and benefits. If you look at 2012, around 55% of our expenses were comp and benefits related. It is a similar sort of mix that we are expecting in 2013.

Most of the headcount growth over where we are today will come in those new initiative areas around CDS and dealer-to-dealer open trading. It's not only sales and product management people, but on the development side as well. So still think about the bucketing that the comp and benefits piece of it, still the lion's share of our expenses, and we will grow similar to that 8% overall rate.

If I look at the numbers right now, there is probably two big variables that you should think about, and one of them is known. And that is just that our incentive bonus provision is tied directly to operating performance. It rolls up into comp and benefits. Because it is tied to operating performance, there is some variability or sensitivity in that one, so that could swing up or down.

The other one from a variable nature would be around SEF compliance and surveillance buildout costs. Until these rules are finalized, there is some items we haven't committed to. So the timing of that spend is a little sensitive right now. Clearly, we are still in investment mode. We are still committed to investing in all of these new initiatives around D2D and CDS and open trading. So clearly we are still in investment mode.

I will just give you two other little anecdotes, just in terms of individual line items. When you look at depreciation and amortization, you should probably look at your model just because of the big spend we have had in 2012, the big spend that we have guided to in 2013; that line item will increase more than the 8% overall.

And on the flip side, professional and consulting fees, there were some items in there in 2012. That item will not grow as much as the overall expense growth. So in terms of the individual line items, again, think about comp and benefits, lion's share of our expenses growing similar to the overall expense; depreciation up a little bit more, professional and consulting probably down a little bit.

Howard Chen - *Credit Suisse - Analyst*

Great. That is really helpful, Tony. Maybe just a final follow-up, perhaps like a more philosophical one for you, Rick. How do you think about budgeting for variable compensation going into a year, while you seem pretty constructive earnings, grew 32% and have grown in excess of 40% CAGR over the last kind of 5, 6 years. And are you generally budgeting for sustaining those growth rates?

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

I guess a couple questions there. I think it is relating to comp and benefits. And if you look at comp and benefits, in especially our cash bonus accrual for 2012, Howard, what you will see is even though earnings were up -- I think we reported 17% today -- the cash bonus accrual for employees was roughly flat.

So we do build in typically with our comp committee and our board a baseline level of growth to maintain existing levels of comp. And if we exceed those levels of growth, then employees will participate in the upside; and if we don't, the bonus provision will be lower. So certainly if you look at the last four years, the increase in comp and benefit and bonus expenses is well below the increase in earnings that you've cited.

Howard Chen - *Credit Suisse - Analyst*

Yes, got it. Congrats on a strong year.

Operator

Patrick O'Shaughnessy.

Patrick O'Shaughnessy - *Raymond James - Analyst*

A follow-up question I had for you was just kind of strategically thinking, what is your view of the retail corporate bond business? Obviously, you guys are really big in the institutional business, but how appealing would you find the retail business and what sort of synergies do you think you could extract by combining the retail and institutional business?

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

We have said consistently, Patrick, as you know, that we view that part of the fixed income business as complementary to what we do today. There are four or five established retail e-trading networks in the market today. So we have said it would be more likely that if we decide to enter that space, we would do so through an acquisition or a joint venture of sorts.

We believe in credit. Retail represents something like 7% or 8% of volume, but typically at higher margins. And for the smallest trade sizes as we move toward a world of open trading, it is possible that combining retail liquidity with various small tickets in the institutional world would provide some of the synergies that you mention.

Quite honestly, we are starting down that path and we are doing it through our dealer-to-dealer initiative. If you look at a lot of what we do in the dealer-to-dealer space, it is the smaller trade sizes where large dealers are using market access to more actively manage their balance sheets and distribute smaller tickets, even if that means distributing them out to other dealers.

And oftentimes, those other dealers are retail trading desks. So if you look at the number of dealers that are active in D2D, it is a far greater number than we have market making in our institutional core product.

And the way we think about that is that D2D business is actually already starting to pull retail liquidity into our institutional business, so we are starting down that path. At the margin, we think it would be additive to what we do. Obviously, we don't talk about it along with the five main initiatives that we have discussed today. It is not the same level of priority for the firm. But if the right opportunity comes along to expand what we are doing in the retail space, we certainly would look at it.

Patrick O'Shaughnessy - *Raymond James - Analyst*

All right, that is very helpful. Thanks again.

Operator

Niamh Alexander.

Niamh Alexander - *KBW - Analyst*

I will be very quick. Marketshare in January so far, what can you share with us? And then just on Xtrakter, what is it at this point? Is it just regulatory approval? Should we think about maybe end of first quarter, just helping us from a modeling perspective? Thanks.

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

We gave a small clue on January volumes, but recognize the range between last January and the fourth-quarter share is relatively wide. But suffice to say in January, overall levels of activity are attractive. We are above the average daily volume over the entire system on where we were in the first quarter of last year. So the overall level of activity is quite attractive.

What we are seeing in the very near term over the first three weeks or so of the year is slightly lower than expected marketshare in high grade and better than expected results again in high yield and EM. So a little bit of a mixed bag, but overall levels of activity are attractive.

Niamh Alexander - *KBW - Analyst*

Okay, that's helpful. Thanks. And then on the Xtrakter, just on the timing?

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

We are waiting for FSA approval. The range of dates that they gave us is anywhere between around now and the middle of March would be their normal cycle on approving a transaction like this. So we continue to expect that sometime in the next four to six weeks we will have their approval; we will be able to move forward the close on Xtrakter.

Niamh Alexander - *KBW - Analyst*

Okay, great. Thanks so much. Appreciate it.

Operator

Jillian Miller.

Jillian Miller - *BMO Capital Markets - Analyst*

Just had a couple really quick numbers questions. How much Xtrakter related stuff was in the professional fees line? Was it $1 million or $500,000?

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

So, Jillian, for the fourth quarter there were two Xtrakter-related expenses on two different lines. And to be specific there was around $700,000 in the professional and consulting, and there was around $300,000 in the other expense. So those two tallied up to about $1 million.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay. And that $700,000 should be moving to $1 million next quarter?

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

Right, right. So in the first quarter when the deal closes, there is some investment banking fees. There is some other legal and tax-related fees. And as Rick mentioned, we are hopeful here the Xtrakter transaction will close soon. And when it does, we expect that $1 million -- and that will all be on the professional and consulting line. That will hit in the first quarter.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay. Is there any reason to think that the tax rate would for some reason be higher next year than it was this year at 38.5%? Because I know you guided 38% to 40%, but it seems like, you know, if anything, more of your revenues kind of coming from Europe. So maybe just a little bit more guidance there.

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

Sure, sure. Two things on the tax rate and one of them related to this tax adjustment. So just to be clear, on that one-time nonrecurring tax adjustment, that will not influence the expected tax rate going forward. So I don't want anybody to be confused or model in something on that one-time adjustment.

Then in terms of the guidance range of 38% to 40%, if you look back now over the last three years, we have been right between 38% and 39.5% or so the last three years now. But I will say if more of our income is sourced from our international operations, that could drive down our effective tax rate.

Right now, looking at our projections for 2013, we still think -- take a look at what we just recorded for 2012. That is a pretty good proxy for what we are expecting right now in 2013.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay, that is helpful. Then just finally on the guidance of $118 million to $123 million for expenses, I know you guys had said before that there was going to be like investments you had to make related to Xtrakter and kind of growing that business. So I know that it doesn't include the actual Xtrakter operating expenses, but does it include projected investments to grow that business after it closes? Does that make sense?

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

So, Jillian, right now -- and we had a lot of debate on how to report Xtrakter. And given the fact that there is some uncertainty on the exact closing date, we opted to tell you what we expect the monthly spend to be. So post acquisition, we are expecting that monthly Xtrakter-related spend to be around $2 million.

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That would be inclusive of the expected investments we expect to make around technology, and that includes people, systems, infrastructure. It includes -- we will be hiring some shared services positions which previously were provided by Euroclear. We will be hiring in new positions. So that $2 million per month would be inclusive of all of those sorts of investments.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay, got it. Thank you.

Operator

I would now like to turn the call over to Rick McVey for closing remarks.

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

Thank you very much for joining us this morning, and we look forward to catching up with you again next quarter.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Have a great day.
