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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the MarketAxess Holdings' First Quarter 2017 Earnings Conference. (Operator Instructions) As a reminder, this conference is being recorded, April 26, 2017.

I would now like to turn the call over to Dave Cresci, Investor Relations Manager at MarketAxess. Please go ahead, sir.

David Cresci

Good morning, and welcome to the MarketAxess' First Quarter 2017 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 result.

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, 2016. 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.

Richard M. McVey - *MarketAxess Holdings Inc. - Chairman and CEO*

Good morning, and thank you for joining us for the first quarter earnings call. We are pleased with the start to the new year with many new records to report. First quarter trading volumes reached record levels, with total trading volume up 27% to $394 billion. Quarterly average daily volume records were set across all 4 core products. We believe this is an extraordinary outcome in light of the challenging market environment that saw record new issuance and unusually low market volatility. On the back of the growth in trading volumes, we delivered record revenues for the quarter of $104 million, up 17%.

This March, in the first quarter, we've surpassed $100 million in revenue. Expenses were up 9%, and operating margins expanded to 54%. Record pretax income of $56 million was up 25%, and record diluted EPS of $1.11 were up 44%. All 4 core products continue to show year-over-year gains in market share and Open Trading volumes reached a new record.

Slide 4 provides an update on the market conditions. Record new issuance in the quarter led to record trades volumes in both high-yield and high-grade. Seasonal factors and the anticipation of higher rates drove record U.S. high-grade new issuance, up 13% from the same period a year ago. We believe that the record high-grade new issue activity led to the increase in trades volume and the increase in block trading during the quarter. U.S. high-grade and high-yield corporate debt outstanding is now approximately $8.5 trillion. Demand for new issuance was driven by heavy inflows to high-grade and high-yield bond funds. We believe international investors continue to flock to U.S. credit markets in a global search for yield. Market conditions in the first quarter were far from ideal for normal secondary trading flows. Yet, despite record new issuance and low credit spread and interest rate volatility, we were able to grow trading volume 27% and revenues 17% this quarter.

Slide 5 provides an update on Open Trading. Open Trading volumes reached another record high of $59 billion in the first quarter with average daily volume up 56% from the same period last year. Approximately 145,000 Open Trading transactions were completed in the first quarter, up 76% from 82,000 in Q1 2016. The number of unique liquidity providers or price makers on the platform continues to increase. The first quarter saw 672 firms providing liquidity, up from 527 in Q1 of last year. This expanding pool of participants helped drive a 103% year-over-year increase in Open Trading price responses. In the first quarter, liquidity takers saved an estimated $25 million in transaction costs through Open Trading on the system. Participants benefited from average transaction cost savings of approximately 2.6 basis points in yield when they completed a U.S. high-grade transaction through Open Trading protocols. Dealer-initiated open trades reached a new high of 22% of total Open Trading volume in Q1. Dealers are increasingly using Open Trading as an additive distribution channel to increase trading velocity and reduce balance sheet usage. The percentage of trading on MarketAxess taking place through Open Trading protocols continued to increase across products. Open Trading accounted for 34% of U.S. high-yield volume, 15% of U.S. high-grade volume and 11% of emerging market volume in the first quarter.

Slide 6 provides an update on our international progress. Our ongoing investment in international expansion is leading to significant gains in clients and market share in Europe, and showing promising signs in Asia and Latin America. Our global emerging market bond trading business has become an important engine of revenue and earnings growth. European client volumes were up 55% year-over-year, driven by a 24% increase in the number of active client firms. Emerging market volumes in Europe experienced a tremendous quarter with volumes up over 100% year-on-year. U.S. credit products were also a key driver this quarter with a 61% volume increase. Emerging markets trading continue to accelerate with local markets trading volume up 79% year-on-year. Trading in local currency bonds is now available in 25 local emerging markets. The number of active emerging market client firms increased by 16% to 837. We are seeing growing participation with firms located outside of North America. In the first quarter, there were 509 active client firms driving an increase of 53% in electronic orders on the platform. We are encouraged by the returns we are seeing from our increased investment outside the U.S., and we believe we are well positioned to capture a larger share of trading in growing global credit markets.

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

Antonio L. DeLise - *MarketAxess Holdings Inc. - CFO*

Thank you, Rick. Please turn to Slide 7 for a summary of our trading volume across product categories. U.S. high-grade volumes were a record $219 billion for the quarter, up 23% year-over-year, on a combination of higher estimated trades volume and higher market share. Volumes in the other credit category were up 37% year-over-year. Emerging markets was a standout this quarter, with trading volume up 69%. We believe that our emerging markets high-yield and Eurobond estimated market share increased year-over-year as growth in our trading volume exceeded the growth in estimated market volume. We had a nice pickup in client engagement and trading activity in municipal bonds in the first quarter and executed almost 6,300 municipal bond trades, up threefold on a sequential quarterly basis. Trading is taking place across this globe, request for quote and Open Trading protocols, and over 300 firms have executed their trade since we launched the platform in 2016. With 3 trading days remaining, April month-to-date estimated high-grade and high-yield market share are tracking well above the first quarter levels. However, market volumes across all products are down from the first quarter levels, with U.S. high-grade and high-yield trades average daily volumes down close to 20%.

On Slide 8, we provide a summary of our quarterly earnings performance. The 19% year-over-year improvement in quarterly commission revenue was the primary driver behind the 17% increase in overall revenue. On a constant exchange rate basis information and post-trade services revenue increased 11% on stronger data sales. Pretax income increased by 25%, and the operating margin percentage reached a record 53.5% in the first quarter. The effective tax rate was 23.6% in the first quarter and reflects excess tax deductions of approximately $5.8 million relating to the new standard for share-based compensation accounting, adopted effective January 1, 2017. Based on our current share price, we are estimating an additional $10 million of excess tax deductions for equity awards expected to be exercised or vest over the balance of this year. As a result, we are lowering our effective tax rate guidance for 2017 to a range of 26% to 28%. We do caution that this new standard could have a significant impact and cause volatility in the company's net income effective tax rate and diluted earnings per share.

Our diluted EPS was $1.11 on a diluted share count of 38.1 million shares. As we mentioned on the year-end earnings call, the adoption of the new accounting standard resulted in an increase in the diluted share count of roughly 400,000 shares.

On Slide 9, we have laid out our commission revenue trading volumes and fees per million. The 23% growth in total variable transaction fees was due to the 27% increase in trading volume, offset by a mix shift causing a decline in overall fees per million. Let me provide a few comments on our U.S. high-grade fee plan. The plan on fee grade has been in place and unchanged since 2005. Because our plan is tiered based on ticket size and because of the fees we earn are dependent on bond duration, fee tax will vary from period-to-period. In addition to our distribution fee plan, we offer dealers the choice of an all-variable fee plan. As a result, the dealer mix also influences the fee capture outcome. U.S. high-grade fee capture declined by $23 per million on a sequential basis. A shift to bond with lower average years to maturity and larger trade size were responsible for the drop in fee capture. We also had one dealer switch from the all-variable plan and the distribution fee plan at the beginning of the quarter. An important factor this quarter was a significant increase in block trading, where we not only saw an increase in percentage of block trading in the broader market, but our share of such volume increased to record levels. This is all additive revenue, albeit at a lower fee rate. Our other credit category fee capture was little changed on a sequential basis, even though there was a mix shift between products. Fee capture for high-yield, emerging market and Eurobonds were all consistent with the fourth quarter.

Slide 10 provides you with the expense detail. Virtually all of the 9% sequential increase in expenses was due to higher compensation and benefit to cost. The variable bonus accrual, which is tied directly to operating performance, was $2 million higher. Employment taxes and benefits were up $2.2 million and reflects the typical first quarter seasonality, where items like employer taxes are front-end loaded. Salaries were also $600,000 higher and reflect an increase in headcount and wage adjustments affected at the first of the year. On a year-over-year basis, higher compensation and benefits cost accounted for the largest variance reflecting a rise in headcount and greater variable bonus accrual. Average headcount was up by 37 people or roughly 11% versus the first quarter of 2016.

On Slide 11, we provide balance sheet information. Cash and investments as of March 31 were $356 million compared to $363 million at year-end 2016. During the first quarter, we paid out year-end employee bonuses and related tax at roughly $32 million and a quarterly cash dividend of $12 million. We also repurchased 65,000 shares at a cost of $12 million under our share buyback program. As of March 31, approximately $39 million was available for future repurchases under the program. Based on the first quarter results, our board has approved a $0.33 regular quarterly dividend.

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

Richard M. McVey - *MarketAxess Holdings Inc. - Chairman and CEO*

Thank you, Tony. The first quarter represents a great start to the new year with volume and share gains driving attractive revenue and earnings growth. We continue to ramp up our investment in Open Trading in order to provide meaningful trading solutions to our dealer and investor clients in this new regulatory environment. Our business is becoming increasingly global and our institutional client footprint provides the foundation for future growth.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question is from the line of Rich Repetto with Sandler O'Neill.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P. - Principal*

I guess, the first question is on the rate, and you've given a good explanation on what happened this quarter. And can you talk about what happens like in a rising rate environment? What would the pricing -- you expect the pricing movements to be?

Richard M. McVey - *MarketAxess Holdings Inc. - Chairman and CEO*

It's a good question, Rich. There's lots of items that influence our high-grade fee capture. So it's not only that duration element, which is years to maturity and yield sensitive, but it is trade side sensitive and dealer mix sensitive and the number of factors that flow in there. I'm going to give you a little bit of rule of thumb, and it is imperfect to exact science, but what we generally see is that every 1 year in maturity, so every change of 1 year in years to maturity, that equates to roughly $10 to $20 per million. And then, every 1 percentage point change in yield would be another similar amount, $10 to $20 per million. Now I give those as rule of thumb. They're not exact, but that would generally frame it out. And one other thing that I did mention in my prepared remarks, we had that one dealer move from the all-variable plan to the fixed plan, and moves like that typically one dealer, that's $3 or $4 per million. So there is a number of items that factor in, but using those as a benchmark at rule of thumb you can do some pluses and minuses off of where we are today.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P. - Principal*

Understood, and that's helpful. And I guess, one follow-up, Rick. The record Open Trading, and we know that's an important aspect to the story here, and the dealers, I guess, making up, 20 -- I believe it's 22%. I guess, my question is, can you talk more about which dealers are doing -- are these the large dealers? Or is there any -- like more specifics you can tell us about that, so we can understand a little bit about what's happening on the dealer side? I'll leave it at that.

Richard M. McVey - *MarketAxess Holdings Inc. - Chairman and CEO*

Absolutely. You know, I would say it's a mix of dealer across large and regional and smaller dealers. So it's -- the participation level is across-the-board. It's not every dealer, but the vast majority of dealers are now taking advantage of the liquidity pool that we have built through Open Trading. And obviously, Rich, as you know, the comment I made earlier is just dealer-initiated trades at 22% of our volume. Dealers are also responding to trade opportunities through Open Trading when they have not seen the order disclosed, and they represent roughly a third of the respondents and liquidity providers in Open Trading. So we're really encouraged by what we see and the growing participation and usage from dealers in Open Trading, both in taking liquidity as well as in providing prices.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P. - Principal*

Got it. Got it. And one last quick question. The tax rate volatility you spoke to, Tony, does that have to do with the share price or actually share -- maybe that's the same, and shares issued. Is that what's going to drive potential volatility in the tax rate quarter to quarter?

Antonio L. DeLise - *MarketAxess Holdings Inc. - CFO*

It's a couple of things, Rich. It's not only where our share price will be when awards vest or awards are exercised, but it's also the timing of when options, for example, are exercised. So we can predict with the perfect knowledge when a restricted stock award will vest. What we can't predict is the share price, but at least we know the exact timing. Options, on the other side, we know, for example, we have a batch of options due to expire in January of 2018. Every one of those options are in the money. Every one of those options will be exercised. The exact timing, we just don't know right now. So we size it up, and we can tell you, based on today's share price, we do expect the tax benefit for the balance of this year to be around $10 million. The exact timing is what we struggle with a little bit. So I think, for lack of anything else right now, I honestly I have a straight line, the impact in the effective tax rate over the next 3 quarters, but it could swing up or down a little bit.

Operator

And our next question come from the line of Kyle Voigt with KBW.

Kyle Voigt - *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

Tony, just a follow-up on the rev capture. Is there any way you can desegregate how much of the decline in the high-grade capture was related to the high average trade sizes? Because I think, just a bit of an unusual quarter for industry-wide volumes with more of the volume being block trades than in the past. Just trying to get a sense for, if block trading falls back to more normalized levels in the second quarter industry-wide and for MarketAxess, what could that mean for fee capture?

Antonio L. DeLise - *MarketAxess Holdings Inc. - CFO*

Right. Right, so for the -- if you look in sequential that fee per million drop was $23 per million. The biggest -- and this is an order of magnitude, the biggest item -- and it was a little less than half was years to maturity dropping about half of the year and then yields were up a little bit. So a little bit less than half of that $23 per million was on duration. The second biggest piece was the larger trade size. For order of magnitude that was responsible for $7 or $8 per million. And then, you have the third piece, which was the smaller one, on the dealer mix. So if you're trying to disaggregate and isolate the trade size impact, it's at $7 or $8 per million. And Kyle, when you look at -- you've got to think about going forward, it's tough to predict where this is all going to come out. I can tell you, just looking at April, the block trade size is back, consistent with where it's been in the past 8 or 10 quarters. So what was a -- the first quarter anomaly, it looks higher than where it was in the prior 8 or 9 quarters. April is back down to where it's been right now.

Kyle Voigt - *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

Okay. That's really helpful, Tony. And then, just one on the -- more of a strategy-related question. But I mean clearly your have been focused on the institutional side and have a full plate there on growing market share on institutional business. But Rick, I'm just wondering if you could revisit some of your thoughts around whether it could make sense for you to eventually get into the retail side of the business, especially if there's an opportunity to acquire a meaningful asset at that base?

Richard M. McVey - *MarketAxess Holdings Inc. - Chairman and CEO*

You know we've said in the past we're always interested in acquisitions that would add to our product capabilities or client segments and the retail space is of interest to us. Having said that, we still do not see any meaningful overlap between retail fixed income trading and institutional trading. So the level of synergies there may not be as high as some people think. But it is a client segment that would be of interest to us.

Kyle Voigt - *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

Okay. And then one last one for me. I think in the last call you talked about the opportunity that MiFID II presented for your business. I think generally, there's been focus on the need for demonstrating best execution and what that can mean for electronic trading in Europe. I guess, my question is on MiFID, is more on the potential for spillover into the U.S. as some of these large global firms who might take best practices globally and adhere to these. So just, Rick, can you give us any color as to what you're seeing on the U.S. side and if think there could be an acceleration of electronic trading because of MiFID more globally?

Richard M. McVey - *MarketAxess Holdings Inc. - Chairman and CEO*

Sure. I think it's a very good question, Kyle. Thank you. And -- first, within Europe, we have little doubt that the new regulations will cause an increase in electronic trading in European fixed income. And I think it's partly related to the best execution requirement that you mentioned. It's also related to the huge burden placed on market participants for trade reporting. Some of the rules that require as many as 90 fields on every trade to be reported are so onerous that it's almost impossible to imagine doing those trades the old-fashioned way and manually. So I think it's a combination of best execution and the trade reporting requirements that are likely to cause an increase in electronic trading within Europe. We are seeing more and more global investors, that are active in European fixed income, that are starting to apply those same standards beyond Europe because they're running global portfolios. And as a result, we see an increase in the demand for best execution analytics across regions and not just in Europe. And I think there are 2 common themes there is that, one is the regulatory focus on best execution, arguably, led by the changes in Europe with MiFID II, but not exclusive to Europe. Regulators throughout the U.S. are also more focused on best execution than they have been in the past. So that trend is there. And the other is, that the asset owners themselves, we hear consistently, are regularly asking more questions off asset managers about how they think about best execution in their fixed income portfolios. So there is a widening interest and focus on best execution. And as we've mentioned in the calls in the past, one of the investments that we've made in our analytical capabilities is related to that and that is, we are now providing TCA analytics for all trades that are conducted on our platforms to serve that need from our clients.

Operator

And our next question comes from the line of Patrick O'Shaughnessy with Raymond James.

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

So following up on the discussion of block trades. You guys have disclosed this in the past. Can you tell us what your market share was for block trading during the quarter?

Richard M. McVey - *MarketAxess Holdings Inc. - Chairman and CEO*

We are, in terms of share of tickets during the quarter, we are, I believe, just a little bit over 10%, and in terms of volume a bit below 10%. So it's edging higher along with our overall share, and the key theme in the first quarter, Patrick, is that the share of blocks in all the trades were up from prior quarters.

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

Yes, that's definitely something that we noticed. And then, given what you just said, I'm kind of backing into blocks may have been around a quarter of your U.S. high-grade volume during the quarter. Does that sound right?

Antonio L. DeLise - *MarketAxess Holdings Inc. - CFO*

I'm just opening up the sheet and -- yes, over $5 million was pretty close, Patrick.

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

All right, got you.

Richard M. McVey - *MarketAxess Holdings Inc. - Chairman and CEO*

I do think it reflects the growing comfort that clients have in executing blocks on the platform, and what we noticed is that block orders, not surprisedly, garner the most attention of any orders on the platform. So the quality and breadth of price responses grows with trade size. And as a result, good expenses, we think, will lead to repeat activity from those clients that have had great execution results executing blocks on the platform.

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

Got it. That's helpful. A question about industry-wide volumes. It was a very strong quarter for both U.S. investment grade and U.S. high-yield issuance. But industry-wide high-grade volumes were up, I think, 14% year-over-year, while industry-wide high-yield was basically flat on a ADV basis. What do you think really is driving that divergence? Why don't we see more trades in a high-yield?

Richard M. McVey - *MarketAxess Holdings Inc. - Chairman and CEO*

I think it's a couple of things. First of all, the high-yield new issue calendar did not row to the same extent that high-grade did. So there was not that direct connection from growth in high-yield issuance that we think that drove the high-grade TRACE volume. The other factor that's impacting both, but I would argue high-yield more, is the lack of volatility. And this was a highly unusual quarter in terms of credit spread volatility, and we believe that, that caused a reduction in turnover for active portfolio managers in high yield.

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

That makes sense. Going back to the conversation on (inaudible) tax requirements in Europe. Can you talk about how your best execution and TCA solution is maybe differentiated from some of the others that are out there? Because it is something that we're starting to hear other companies talk about as well.

Richard M. McVey - *MarketAxess Holdings Inc. - Chairman and CEO*

Sure. There's room for multiple solutions. We think that we have a logical place in TCA for global credit markets. And it's really 2 things, Patrick. First is, access to quality data. So you need a comprehensive database of fixed-income transactions in order to do a credible job on TCA for clients. And we have 3 main sources for data to compare execution quality. The first is, obviously, that the trades data in the U.S. The second is the comprehensive data that we have in Europe for European fixed income through Trax, and the third is our own trading data. And as a result, we worked really hard to put together a database that is meaningful for our dealer and client -- investor clients, so that they can compare execution quality of their trades, irrespective of whether they're conducted on the platform or through traditional means, and that is why we think we've got a place -- a role to play in TCA within the global credit markets. We are not really doing much on the rate size because we do not, as of today, believe that we have the same competitive advantages in rates for TCA that we have in credit.

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

Got it. And then one more, Tony. Going back to the tax rate question. I appreciate that this is all kind of a work in progress. But as you think to 2018 and beyond, should there be a sustainable tax rate benefit from the that, your new accounting? Or is that kind of a 2017 item? And then, kind of your initial guidance going into 2017 of 32% to 34%, that's probably the appropriate starting point for 2018 and beyond.

Antonio L. DeLise - *MarketAxess Holdings Inc. - CFO*

Patrick, it's -- never take these items lightly. But we've been -- you know how we've performed, which is -- we've been in a situation, we've had a rising share price for a long period of time. And even when you look back of tax 5 years, the EPS benefit, had we been under the new rules, the past 5 years, the EPS benefit would have been between $0.10 and $0.30 in EPS. You look forward, so this is more forward-looking. I can tell you, sitting here today, based on where our share price is trading and assuming that every restricted stock award vest and every option is exercised, I can tell you, we're sitting on somewhere between $60 million to $70 million of excess tax benefits to be recognized over the next 4 years. So yes, there is a fees, and the sizable fees that we expect to be recognized in 2018, in 2019, in 2020. But, again, it's all predicated on where the share prices is, it's predicated on the timing of when options, for example, get exercised. But a little early to start talking about guidance for next year, but I would bake in some element of tax benefit going.

Operator

And our next question comes from the line of Conor Fitzgerald with Goldman Sachs.

Conor Burke Fitzgerald - *Goldman Sachs Group Inc., Research Division - VP*

Just wanted to ask on the number of active trader firms you've seen kind of growing outside of North America. I'm not sure if you have any idea of what the addressable market is or large firms to kind of current -- or meaningful firms that are currently active on the platform, that could be. Just to kind of trying to get a sense of how much more runway you have to add active trader firms outside of North America?

Richard M. McVey - *MarketAxess Holdings Inc. - Chairman and CEO*

Yes, I think the majority of the large global firms, I know they're already active on the platform. But the asset management industry outside of the U.S. is more fragmented, and we think that there is still a much larger list of potential clients. And we were encouraged by what we see in terms of the growth rates across our product capabilities from European clients, but also really encouraged as we ramped up our sales commitment to the region in Asia that clients onboard, and it's taking place in the region. So if we are over 500 active firms outside the U.S. now, I would not be at all surprised to see that number double over the coming years.

Conor Burke Fitzgerald - *Goldman Sachs Group Inc., Research Division - VP*

That's helpful color. And then, just wanted to ask on the higher revenue from data that you mentioned. Can you just talk about what drove that? Curious if it's more market participants buying your data or is the value proposition of the data you're providing is improving. Maybe that's increasing demand.

Antonio L. DeLise - *MarketAxess Holdings Inc. - CFO*

It is -- on the data side. You just -- by way of history on that one. We've been growing that data business around 10% a year in data revenues. It does get mashed a little bit, more recently because of the FX impact. There is a chunk of our revenue that is generated at the U.K., so it does get mashed a little bit. But we're providing volume reports and pricing reports and reference data, all content that resonates with clients. It's a -- It is a part of the grow story. We think we can grow that data revenue going forward. I do -- just in terms of cautioning. Can we -- can data be 25% of our revenue going forward? I think we still have tremendous room to grow market share and tremendous room to grow our commission revenue and volumes. So I do believe we're going to grow the data revenue, but we're also in early stages on market share penetration. So it's going to be an important element and part of the growth story going forward. But I don't know when we get to the 25%.

Conor Burke Fitzgerald - *Goldman Sachs Group Inc., Research Division - VP*

Thanks. And just -- maybe just circling back on that. Any updated thoughts or potential opportunity to sell data that you're currently not providing to the market, just given there does seem to be kind of increased demand for your data set?

Richard M. McVey - *MarketAxess Holdings Inc. - Chairman and CEO*

I think that -- a couple of factors there. We are developing new data products in conjunction with our clients every quarter. And as our trading activity grows in terms of share, but also in terms of the breadth of products that we cover, it does give rise to new data opportunities going forward. And so the short answer is, yes, we do believe that we can increase the set of data products that we provide. I would echo Tony's comments that, given the momentum that we have in our trading business, we still expect the main engine of revenue and earnings growth to come from the trading side. But our data products are increasingly providing a necessary and important service back to our clients. And the other thing that we've said many a times is that, the key part of data is also enhancing our trading platform. So we are constantly thinking about how we can add more value to clients in both pretrade price discovery, and those tools have continued to advance over the last 3 or 4 quarters with a real-time composite price that's now available in addition to trades and Trax price to help all of our dealer and investor clients with pretrade price discovery. And that's in a conscious effort to make the trading system more valuable and help in the goal to continue to increase trading market share. So some of what we do in data is for standalone growth in our data business, and a key part of it is also in enhancing the trading experience on the platform.

Conor Burke Fitzgerald - *Goldman Sachs Group Inc., Research Division - VP*

Got it. And I realize this is probably really difficult to try and strip out some of the variables. But do you have a sense of your average client, who kind of provide -- or pays for your data service, if their propensity to trade on your platform versus those you don't? I know it's probably a tough question to answer, just because the larger firms are, obviously, buying the data and trading more. But I'm just wondering up on an apples-to-apples basis if, kind of building on your comments, if there is a correlation between all of people, those who pay for data and those who don't, in terms of trading activity?

Richard M. McVey - *MarketAxess Holdings Inc. - Chairman and CEO*

You know its -- I don't know that we have that exact data that would give us the correlation. I can tell you that there is no doubt in our mind that our data products and our post-trade TCA and the other things that we work on extensively to add value to our clients are a key part why they come to the trading perform and trade everyday. And oftentimes when they recognize the value of that data, then they want that data delivered into their -- directly into their own trading systems through APIs. And so often that's where it gives rise to the data revenue opportunities for us. So they're directly connected, but I don't think we have any quantitative data that would answer the specific question that you've asked today.

Operator

(Operator Instructions) And our next question comes from the line of Chris Shutler with William Blair.

Christopher Shutler - *William Blair & Company L.L.C., Research Division - Research Analyst*

If you break down the Open Trading volume into the client segments, there is a pie chart in the presentation, and we look at the long-only asset managers that are winning the trades, so the 38% in the first quarter. Can you just give us some sense of how concentrated that trading is today? And are you seeing any greater sense of urgency amongst asset mangers to just kind of change their workflows?

Richard M. McVey - *MarketAxess Holdings Inc. - Chairman and CEO*

Sure. I think the pool of Open Trading price providers that I mentioned in the prepared remarks, with 670 firms or so, would tell you that it's not that concentrated that the vast majority of our clients have set up electronic watch list in their system for the bonds that they care about and match their portfolio needs. And when they find matched opportunities, many of them are now clearly in the practice of being able to lead with a price. So I think that's a really encouraging sign for future growth. With respect to the sense of urgency, it varies by firm, and there is a lot of work involved in changing the trading process with the coordination with the order management systems and the coordination that's required between PMs and trading managers. And when you look at the year-on-year and quarter-on-quarter growth, we're making progress every quarter, and we're really encouraged by what we see in terms of shifting the dealer and client behavioral pattern to participate more actively in Open Trading. And I continue to believe that the market environment will have something to do with a sense of urgency. Right now, things are pretty benign, we had a very low volatility quarter. But I think these tools will be incredibly important to the global credit markets when we return to more normal levels of volatility.

Christopher Shutler - *William Blair & Company L.L.C., Research Division - Research Analyst*

Okay. And then switching gears. In Eurobonds, you saw a strong 19% growth in your volumes year-on-year, but that was a bit of a deceleration from prior quarters, and I know the calculation there is a bit of an estimate. The market share gains, I think, seem to had to slow a little bit. I mean, is there anything to call out there on the Eurobond side in the quarter?

Richard M. McVey - *MarketAxess Holdings Inc. - Chairman and CEO*

I don't think there is any call-out. You know the -- our European business is much broader than Eurobond, as Rich mentioned in the prepared remarks and we have similar activity levels with European clients in EM and the U.S. high-grade. And the growth rates were better there this quarter than they were in Eurobonds. But I don't think there is any specific to call out. And when we look inside the Eurobond market, we see many of the same dynamics that we reported on today in U.S. high-grade, with a pretty active quarter on a relative basis for Eurobond new issuance and extremely low volatility of credit spreads.

Christopher Shutler - *William Blair & Company L.L.C., Research Division - Research Analyst*

Okay. And then Tony, on the tax rate. I just want to make sure that I have this right. So excluding the share-based compensation accounting, you'd be, I guess, 34% to 35% tax rate is still correct?

Antonio L. DeLise - *MarketAxess Holdings Inc. - CFO*

That's exactly right. You're looking at the first quarter, that's there we would have been right at 34%, excluding the FX tax benefit.

Christopher Shutler - *William Blair & Company L.L.C., Research Division - Research Analyst*

Okay. And the $60 million to $70 million, so that's the total value of the tax benefits from RCs and stock comp that at today's share price?

Antonio L. DeLise - *MarketAxess Holdings Inc. - CFO*

That's exactly, right.

Christopher Shutler - *William Blair & Company L.L.C., Research Division - Research Analyst*

Okay, great. And then lastly, the -- just a housekeeping item. Can you give us the Open Trading revenue. I'm not sure if I missed that number.

Antonio L. DeLise - *MarketAxess Holdings Inc. - CFO*

We didn't give the Open Trading revenue, but I could tell you it was a record quarter, and it was right around $12 million.

Operator

And our next question comes from the line of Rich Repetto with Sandler O'Neill.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P. - Principal*

Yes, just one quick follow-up on expenses. If you annualize this quarter's expense, seems like you're at the low end. I guess, Tony, just any more color on how do you see the growth of expense over the next few quarters? And do you expect to still be in this range?

Antonio L. DeLise - *MarketAxess Holdings Inc. - CFO*

Right, right. So Richard, if you ask me today on expense guidance, I think we're going to come smack down in the middle of the guidance that we provided originally, which is $192 million to $208 million. You're right, if you annualize the first quarter, it'll get to the low end. But you know there are a couple of swing factors in there, headcount's part of it. We do expect to add headcount over the balance of this year. We were up 8 or 10 people in the first quarter. We expect another 30 or 40 new hires over the balance of the year. So that headcount does play into it. You saw -- you may have seen that marketing expense, for example, was lower in the first quarter than it was in the fourth quarter. It's a bit episodic. But we do expect marketing expense year-over-year will be up around 10%. That's going to influence Q2, Q3 and Q4 as well. So just thinking of those, those items, when we look out over the balance of the year, right now puts us smack down middle of that original guidance range.

Operator

Thank you. And this concludes our Q&A session for today. I will like to turn the call back to Rich McVey for closing comment.

Richard M. McVey - *MarketAxess Holdings Inc. - Chairman and CEO*

Thanks very much for joining us this morning, and we look forward to updating you next quarter.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This conclude the program, and you may all disconnect. Have a wonderful day.