



# Q2 2020 Conference Call and Webcast

July 22, 2020

# Forward Looking Statements

This presentation may contain forward-looking statements, including statements about the outlook and prospects for Company and industry growth, as well as statements about the Company's future financial and operating performance. These and other statements that relate to future results and events are based on MarketAxess' current expectations. The Company's actual results in future periods may differ materially from those currently expected or desired because of a number of risks and uncertainties, including: risks relating to the COVID-19 pandemic, including the possible effects of the economic conditions worldwide resulting from the COVID-19 pandemic; global economic, political and market factors; the volatility of financial services markets generally; the level of trading volume transacted on the MarketAxess platform; the absolute level and direction of interest rates and the corresponding volatility in the corporate fixed-income market; the level and intensity of competition in the fixed-income electronic trading industry and the pricing pressures that may result; the variability of our growth rate; the rapidly evolving nature of the electronic financial services industry; our ability to introduce new fee plans and our clients' response; our exposure to risks resulting from non-performance by counterparties to transactions executed between our clients in which we act as an intermediary in matched principal trades; our dependence on our broker-dealer clients; the loss of any of our significant institutional investor clients; our ability to develop new products and offerings and the market's acceptance of those products; the effect of rapid market or technological changes on us and the users of our technology; our ability to successfully maintain the integrity of our trading platform and our response to system failures, capacity constraints and business interruptions; our vulnerability to cyber security risks; our ability to protect our intellectual property rights or technology and defend against intellectual property infringement or other claims; our ability to enter into strategic alliances and to acquire other businesses and successfully integrate them with our business; our ability to comply with new and existing laws, rules and regulations both domestically and internationally; our ability to maintain effective compliance and risk management methods; the strain of growth initiatives on management and other resources; our future capital needs and our ability to obtain capital when needed; limitations on our operating flexibility contained in our credit agreement; and other factors. The Company undertakes no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. More information about these and other factors affecting MarketAxess' business and prospects is contained in MarketAxess' periodic filings with the Securities and Exchange Commission and can be accessed at [www.marketaxess.com](http://www.marketaxess.com).

# 2Q20 Summary<sup>1</sup>

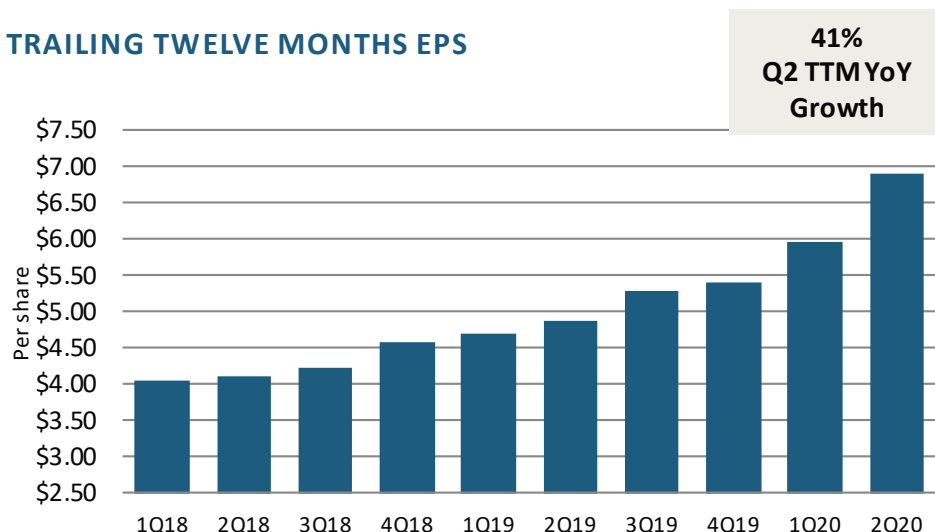
## FINANCIAL HIGHLIGHTS

- Record revenues of \$185 million, up 47%
- Record operating income of \$104 million, up 71%
- Record operating margin of 56.4%, up from 48.5%
- Record EBITDA of \$113 million, up 63%
- Record diluted EPS of \$2.20, up 73%

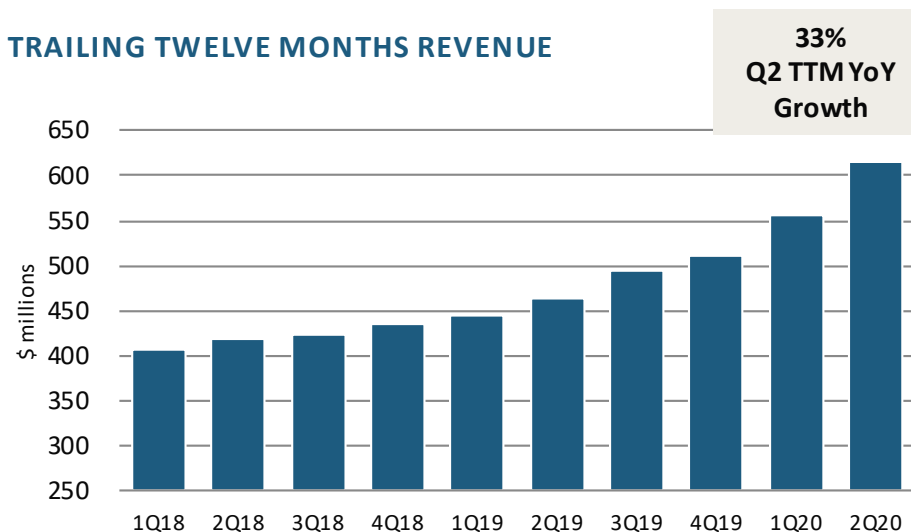
## BUSINESS HIGHLIGHTS

- Record total credit trading volume of \$742 billion, up 44%
- Record estimated U.S. high-grade market share of 21.5%, up from 18.7%
- Record estimated U.S. high-yield market share of 14.0%, up from 10.4%
- Record Open Trading™ credit volume of \$241 billion, up 87%, and estimated total system-wide cost savings of \$312 million<sup>2</sup>

## TRAILING TWELVE MONTHS EPS



## TRAILING TWELVE MONTHS REVENUE



1. All period comparisons versus 2Q19 unless otherwise stated.
2. Represents combined estimated system-wide cost savings for liquidity takers and liquidity providers.

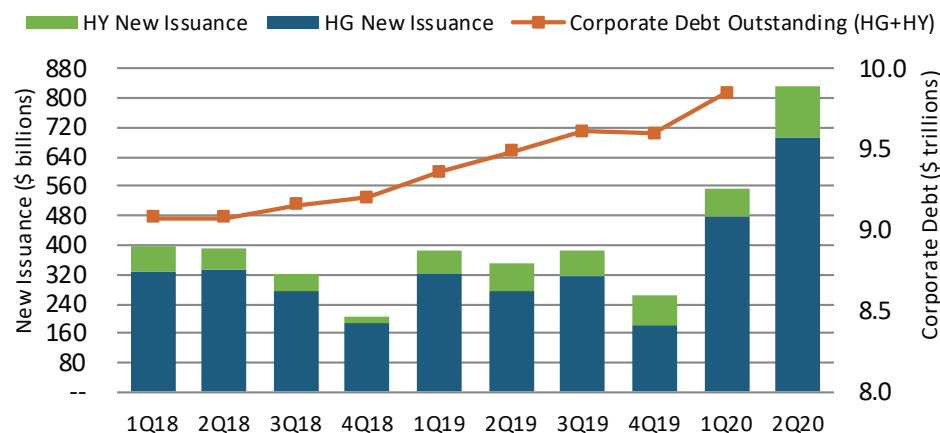
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# Market Conditions

## PRE-CRISIS VS. CRISIS ACTIVITY LEVELS

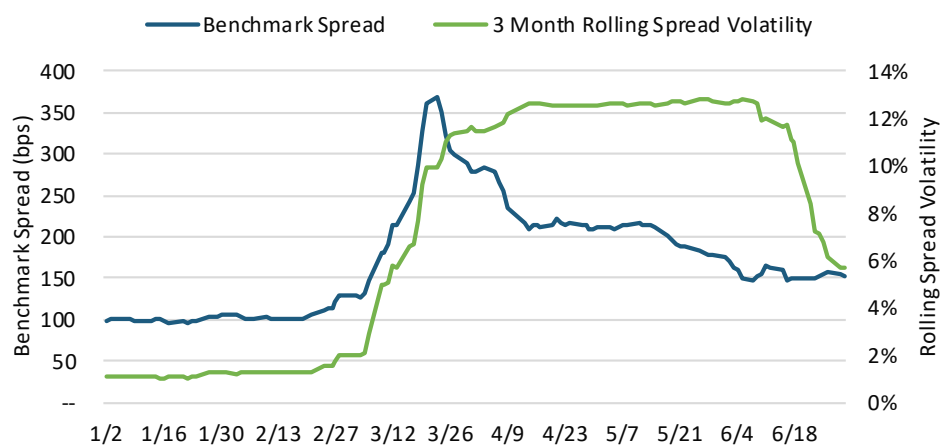
	1/2 – 2/21	2/24 – 6/30	% Change
<b>U.S High Grade</b>			
TRACE ADV	\$23.8 bil	\$30.4 bil	28%
MKTX ADV	\$4.5 bil	\$6.5 bil	45%
MKTX Market Share %	18.9%	21.4%	2.5 pts
<b>U.S High Yield</b>			
TRACE ADV	\$11.2 bil	\$12.5 bil	12%
MKTX ADV	\$1.2 bil	\$1.7 bil	45%
MKTX Market Share %	10.8%	13.9%	3.1 pts
<b>MKTX Open Trading ADV</b>	<b>\$2.6 bil</b>	<b>\$4.0 bil</b>	<b>55%</b>

## NEW ISSUANCE & CORPORATE DEBT OUTSTANDING



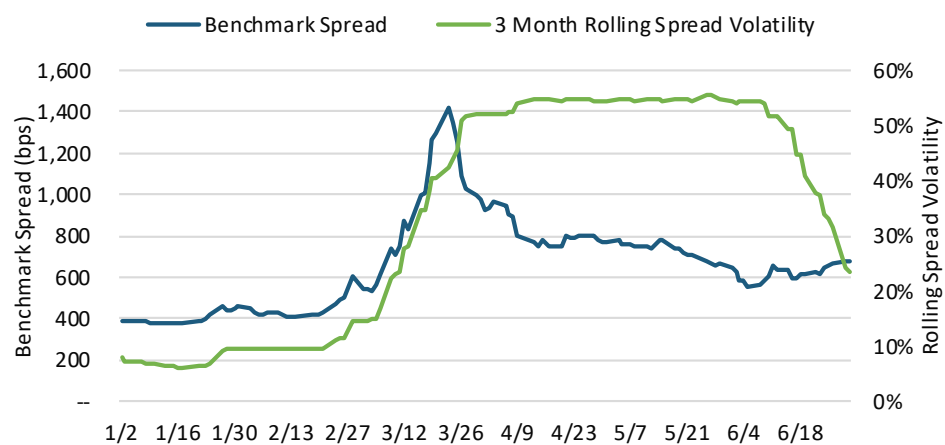
Source: JPMorgan and SIFMA

## HIGH GRADE LUCI SPREADS AND VOLATILITY



Source: Credit Suisse

## HIGH YIELD LUCI SPREADS AND VOLATILITY



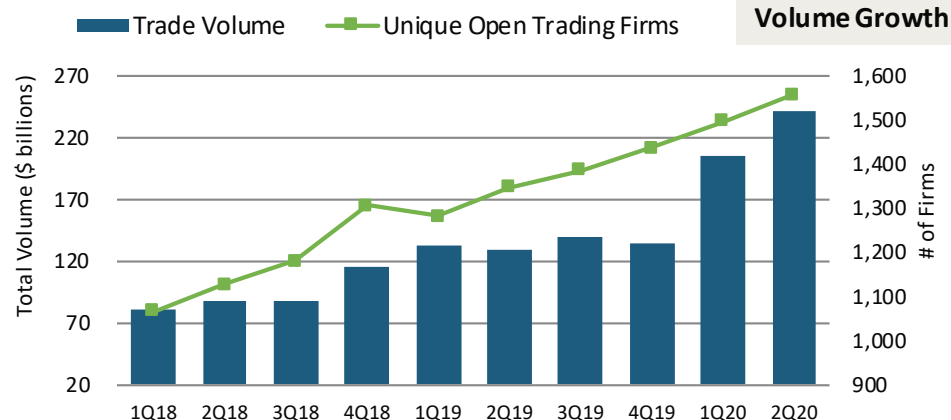
Source: Credit Suisse

# Open Trading™

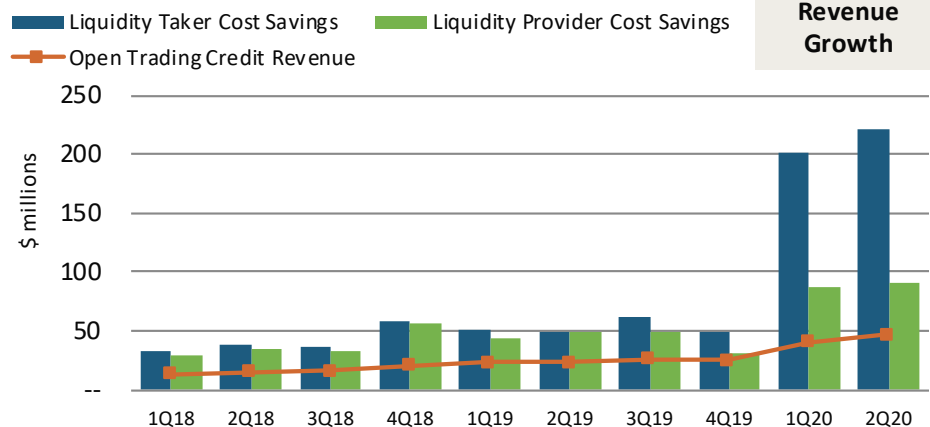
## HIGHLIGHTS

- Open Trading credit volume grew to 32% of total volume, up from 25% in 2Q19
- \$3.8 billion average daily volume, up 87% from 2Q19
- Estimated record system-wide cost savings of \$221 million for liquidity takers and \$90 million for liquidity providers<sup>1</sup>
- Over 32,000 institutional client orders and \$18 billion notional value available through Open Trading on average per day in 2Q20
- Record Open Trading credit revenue of \$47 million, up 102% from 2Q19

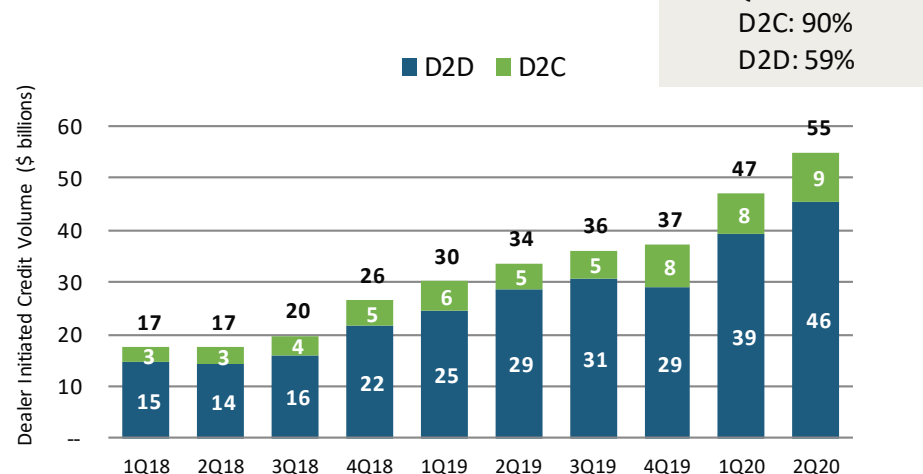
## OPEN TRADING CREDIT VOLUME & UNIQUE TRADING FIRMS



## OPEN TRADING ESTIMATED CREDIT TRANSACTION COST SAVINGS<sup>1</sup> & REVENUE



## DEALER INITIATED CREDIT VOLUME



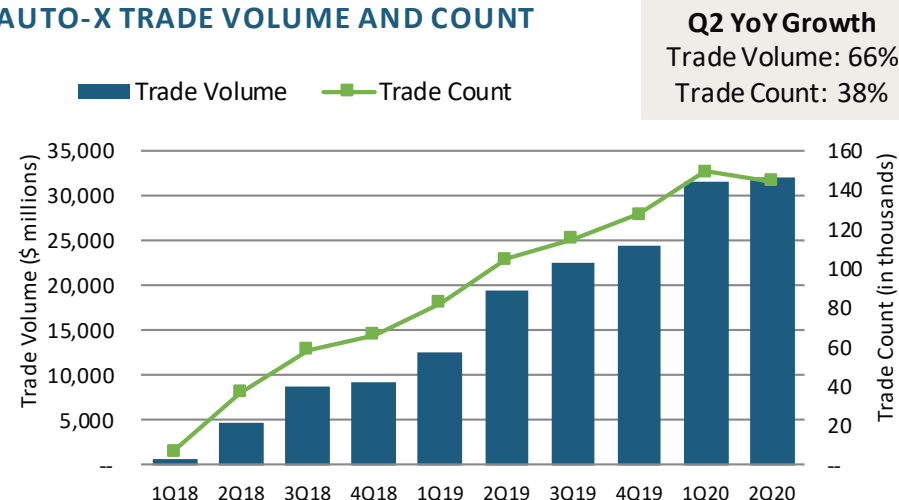
1. Estimated liquidity taker cost savings is defined as the difference between the winning price and the best disclosed dealer cover price. Estimated liquidity provider cost savings is defined as the difference between the winning price and then current Composite+ bid or offer level (offer if the provider if buying, bid if provider is selling) at the time of the inquiry.

# Trading Automation Continues to Grow

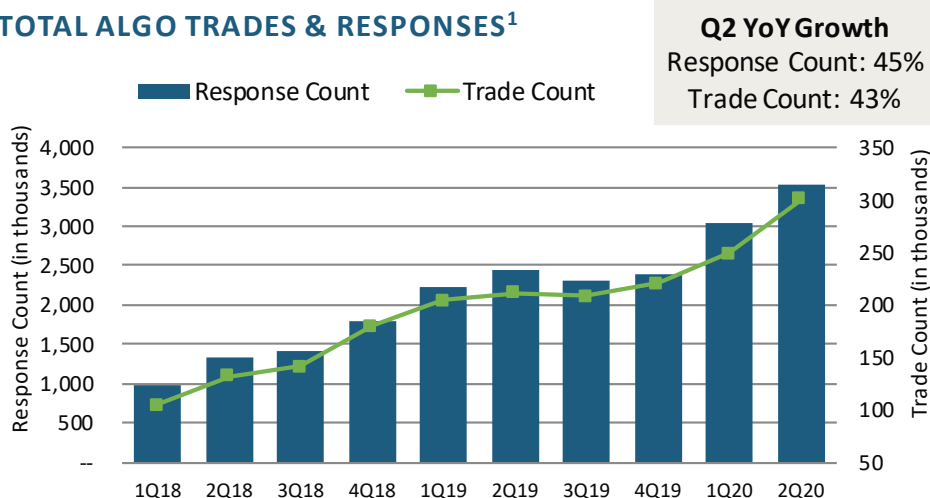
## HIGHLIGHTS

- Over 144,000 trades completed using automated execution, up from 105,000 trades in 2Q19
- 83 firms used automated execution functionality in 2Q20, up from 55 in 2Q19
- Approximately 3.5 million algo responses in 2Q20, up 45% from 2Q19<sup>1</sup>
- Auto-X represents 11% of total trade count

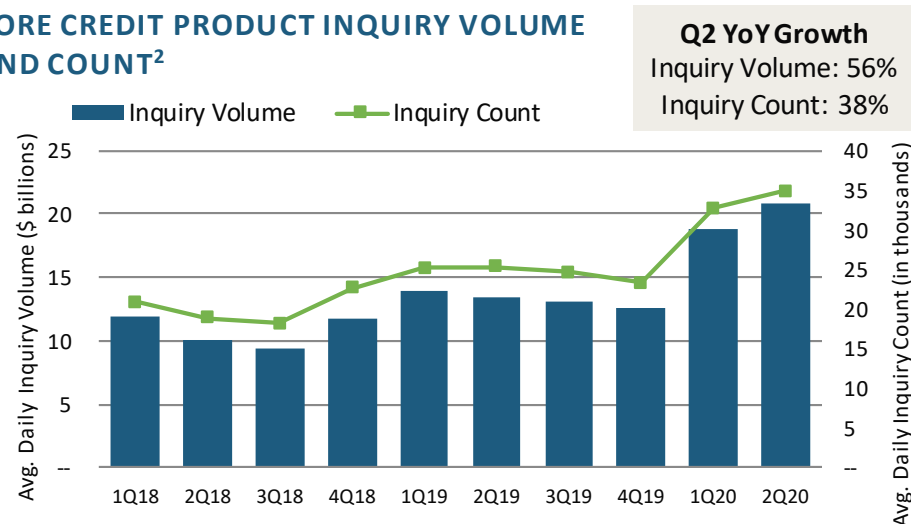
## AUTO-X TRADE VOLUME AND COUNT



## TOTAL ALGO TRADES & RESPONSES<sup>1</sup>



## CORE CREDIT PRODUCT INQUIRY VOLUME AND COUNT<sup>2</sup>

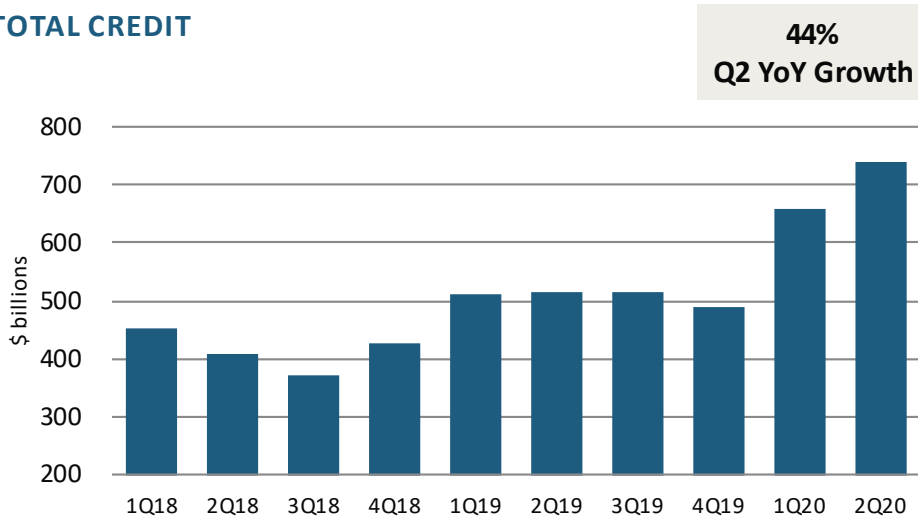


1. Algorithmic responses for U.S. high-grade and U.S. high-yield spread based trades only.

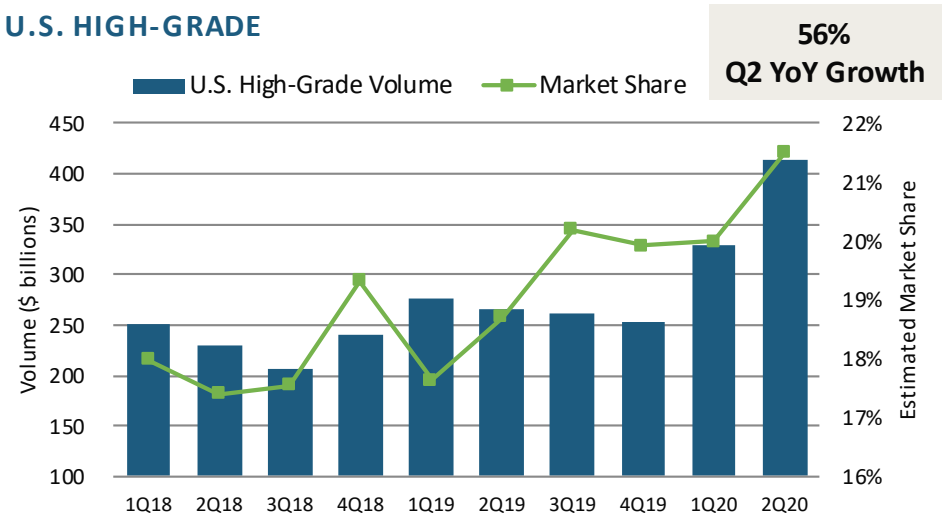
2. Core credit products include U.S. high-grade, U.S. high-yield, emerging markets and Eurobonds.

# Quarterly Volume Growth

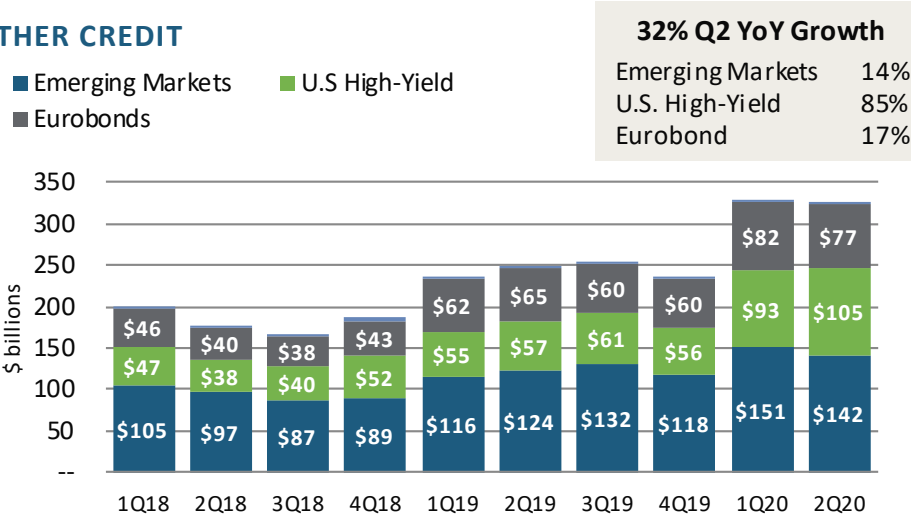
## TOTAL CREDIT



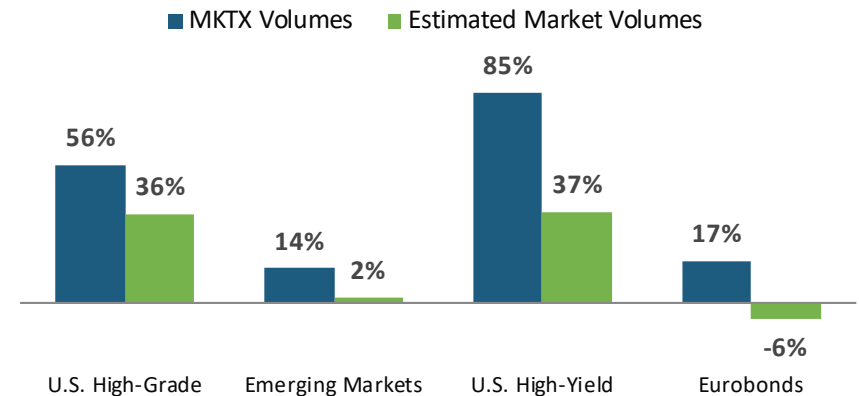
## U.S. HIGH-GRADE



## OTHER CREDIT



## 2Q20 YOY CHANGE IN MKTX VOLUMES AND ESTIMATED MARKET VOLUMES<sup>1</sup>



1. Estimated market volumes based on FINRA TRACE, NYFRB and TRAX reported volumes reported in US dollars.

# Earnings Performance

	<u>2Q20</u>	<u>1Q20</u>	<u>2Q19</u>	<u>% Δ</u> <u>2Q20 vs.</u> <u>2Q19</u>
	<i>(\$ in thousands, except per share data)</i>			
Revenues				
Commissions	\$ <b>172,092</b>	\$ 155,954	\$ 114,124	50.8%
Information Services	<b>8,427</b>	8,642	7,156	17.8%
Post-trade Services	<b>4,054</b>	4,153	3,956	2.5%
Other Income	<b>222</b>	229	254	(12.6%)
Total Revenues	<b>184,795</b>	168,978	125,490	47.3%
Expenses	<b>80,660</b>	77,889	64,613	24.8%
Operating Income	<b>104,135</b>	91,089	60,877	71.1%
Investment Income and Other, net	<b>268</b>	613	2,032	(86.8%)
Income Before Taxes	<b>104,403</b>	91,702	62,909	66.0%
Provision for Income Taxes	<b>20,549</b>	16,886	14,804	38.8%
Net Income	<b>\$ 83,854</b>	\$ 74,816	\$ 48,105	74.3%
Operating Margin	<b>56.4%</b>	53.9%	48.5%	7.9 pts
EBITDA <sup>1</sup>	<b>\$ 112,708</b>	\$ 99,769	\$ 69,254	62.7%
Diluted EPS	<b>\$ 2.20</b>	\$ 1.96	\$ 1.27	73.2%
Diluted Shares <sup>2</sup>	<b>38,153</b>	38,075	37,910	0.6%

1. See second quarter 2020 earnings release and the Investor Relations section of the Company's website for a reconciliation of net income to EBITDA.

2. Represents the weighted average number of shares of common stock, including the dilutive effect of outstanding securities.

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# Commission Revenue Detail

	<u>2Q20</u>	<u>1Q20</u>	<u>2Q19</u>	% $\Delta$ 2Q20 vs. 2Q19
<b>Commissions</b> (\$ in thousands)				
Transaction Fees				
U.S. High-Grade	\$ 75,208	\$ 57,970	\$ 42,914	75.3%
Other Credit <sup>1</sup>	66,977	65,610	47,233	41.8%
Total Credit	<u>142,185</u>	<u>123,580</u>	<u>90,147</u>	57.7%
Rates <sup>2</sup>	<u>3,846</u>	<u>5,586</u>	<u>615</u>	525.4%
Total Transaction Fees	<u>146,031</u>	<u>129,166</u>	<u>90,762</u>	60.9%
Distribution Fees				
U.S. High-Grade	19,635	19,974	17,483	12.3%
Other Credit <sup>1</sup>	6,329	6,658	5,774	9.6%
Total Credit	<u>25,964</u>	<u>26,632</u>	<u>23,257</u>	11.6%
Rates <sup>2</sup>	<u>97</u>	<u>156</u>	<u>105</u>	(7.6%)
Total Distribution Fees	<u>26,061</u>	<u>26,788</u>	<u>23,362</u>	11.6%
Total Commissions	<u>\$ 172,092</u>	<u>\$ 155,954</u>	<u>\$ 114,124</u>	50.8%
<b>Trading Volume</b> (\$ in millions)				
U.S. High-Grade	\$ 414,580	\$ 329,994	\$ 265,360	56.2%
Other Credit <sup>1</sup>	<u>327,266</u>	<u>329,753</u>	<u>248,503</u>	31.7%
Total Credit	<u>741,846</u>	<u>659,747</u>	<u>513,863</u>	44.4%
Rates <sup>2</sup>	<u>955,594</u>	<u>1,444,878</u>	<u>13,174</u>	NM
<b>Transaction Fees per Million</b>				
U.S. High-Grade	\$ 181.41	\$ 175.67	\$ 161.72	12.2%
Other Credit <sup>1</sup>	204.66	198.97	190.07	7.7%
Total Credit	191.66	187.31	175.43	9.3%
Rates <sup>2</sup>	4.02	3.87	46.69	NM

1. Other Credit includes U.S. high-yield, emerging markets, Eurobonds and municipal bonds.

2. Rates includes U.S. Treasury bonds, U.S. agencies and European government bonds.

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# Expense Detail

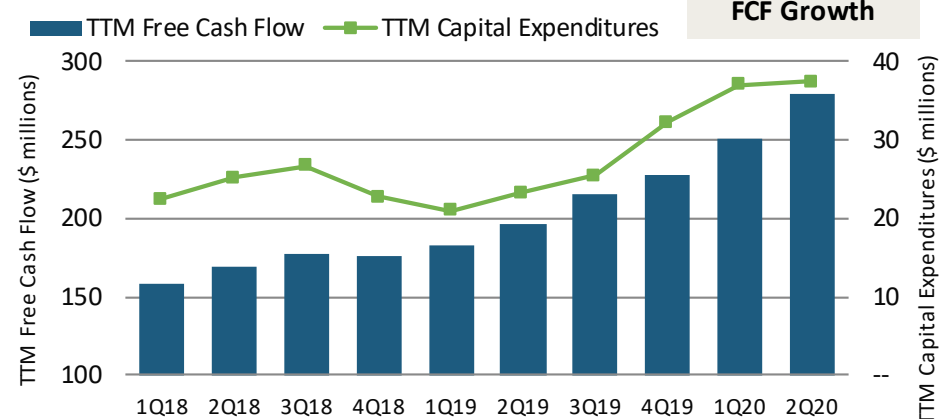
	<u>2Q20<sup>1</sup></u>	<u>1Q20<sup>1</sup></u>	<u>2Q19</u>	<u>% Δ</u> <u>2Q20 vs.</u> <u>2Q19</u>
	<i>(\$ in thousands)</i>			
<u>Expenses</u>				
Employee Compensation and Benefits	\$ 41,636	\$ 41,194	\$ 32,623	27.6%
Depreciation and Amortization	8,305	8,067	6,345	30.9%
Technology and Communications	8,592	8,161	6,474	32.7%
Professional and Consulting	8,065	5,675	6,296	28.1%
Occupancy	3,286	3,474	2,798	17.4%
Marketing and Advertising	1,810	2,675	3,667	(50.6%)
Clearing Costs	5,713	5,510	2,610	118.9%
General and Administrative	<u>3,253</u>	<u>3,133</u>	<u>3,800</u>	<u>(14.4%)</u>
Total Expenses	\$ 80,660	\$ 77,889	\$ 64,613	24.8%

1. MarketAxess Rates, formerly known as LiquidityEdge, expenses in the second quarter and first quarter of 2020 were \$3.8 million and \$5.0 million, respectively.

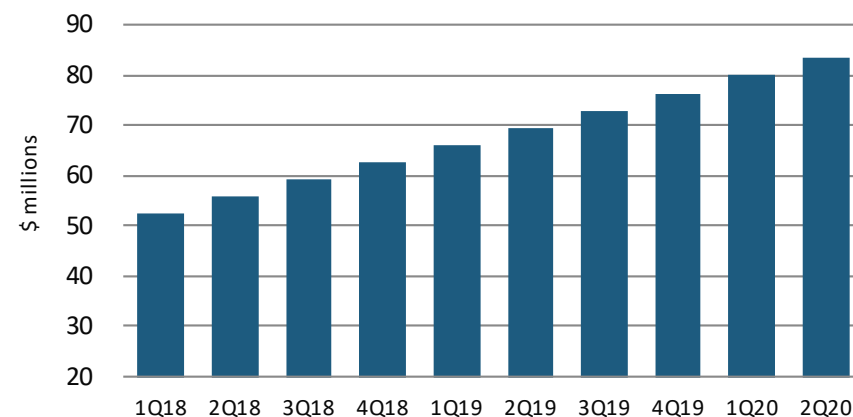
# Balance Sheet Data

(\$ in thousands)	<u>6/30/2020</u>	<u>12/31/2019</u>
<u>Assets</u>		
Cash, Cash Equivalents and Investments	\$ 535,520	\$ 500,601
Accounts Receivable, net	99,222	62,017
Goodwill and intangible assets, net	206,946	207,847
Operating Lease Right-of-use Assets	77,933	81,399
All Other Assets	119,596	103,066
Total Assets	<u>\$ 1,039,217</u>	<u>\$ 954,930</u>
<u>Liabilities and Stockholders' Equity</u>		
Operating Lease Liabilities	\$ 94,701	\$ 97,991
All Other Liabilities	91,032	86,848
Total Liabilities	185,733	184,839
Total Stockholders' Equity	853,484	770,091
Total Liabilities and Stockholders' Equity	<u>\$ 1,039,217</u>	<u>\$ 954,930</u>

## TTM FREE CASH FLOW AND CAPITAL EXPENDITURES<sup>1</sup>



## TTM QUARTERLY DIVIDENDS



1. TTM capital expenditures exclude office buildout costs.

# Summary

- Record quarter for trading volume, revenue and earnings
- Record estimated U.S high-grade and U.S. high-yield market share
- Market share gains across all credit products and geographic regions
- Record estimated Open Trading transaction cost savings, exceeding company revenue for second quarter in a row
- Trading automation is fueling rapid adoption of electronic credit trading