



# Q1 2022 Conference Call and Webcast

April 20, 2022

# Strategic Update

❖ Rick McVey, Chairman and CEO

# 1Q22 Strategic Update & Highlights<sup>1</sup>

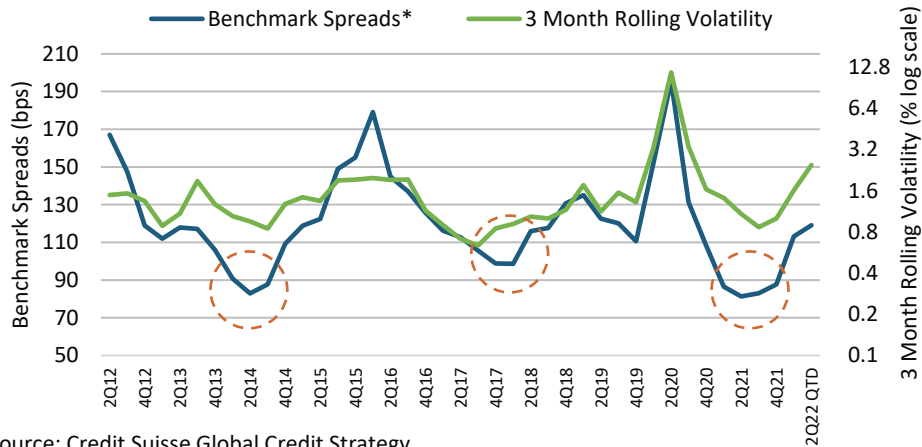
<p><b>Increase penetration in core credit products</b></p>	<ul style="list-style-type: none"> <li>• <b>Second highest level of quarterly revenue</b> and total credit trading volume; record total trading volume.</li> <li>• <b>19.1% estimated market share</b> of combined U.S. high-grade and high-yield markets.</li> <li>• <b>Record:</b> Emerging markets ADV, up 5%.</li> <li>• <b>Record:</b> International trading volume represented 32% of total credit volume.</li> <li>• <b>Record:</b> Total active clients, up 5%.</li> </ul>
<p><b>Expand into new products</b></p>	<ul style="list-style-type: none"> <li>• <b>Record:</b> U.S. Treasury Live Markets all-to-all order book ADV, up 37%.</li> <li>• <b>Record:</b> Municipal bond ADV, up 205% (up 32% excluding MuniBrokers ADV).</li> <li>• <b>Record:</b> Emerging markets local markets trading volume, up 22%.</li> <li>• <b>Launched MKTX 400 Index</b> and <b>Axess All® Prints</b> real-time European fixed income trade tape.</li> </ul>
<p><b>Expand trading protocols &amp; leverage the Open Trading® Network</b></p>	<ul style="list-style-type: none"> <li>• <b>Market conditions continue to improve</b>—higher rates with wider credit spreads &amp; higher spread volatility.</li> <li>• <b>Over \$200 million in estimated cost savings<sup>2</sup></b>, up 57% from 4Q21 levels.</li> <li>• <b>Record:</b> Portfolio Trading volume.</li> <li>• <b>Record:</b> Live Markets volume in both U.S. Treasuries and corporate bonds.</li> <li>• <b>Record:</b> Trade automation – trading volume, trade count and active clients.</li> </ul>
<p><b>Grow our business through geographic diversification</b></p>	<ul style="list-style-type: none"> <li>• <b>Record:</b> Total active international clients, up 8%.</li> <li>• <b>Record:</b> Total Asia active clients, up 19%.</li> <li>• <b>Record:</b> Total active international investor client traders, up 8%, and dealer traders, up 10%.</li> </ul>

1. All period comparisons are 1Q22 vs. 1Q21 unless otherwise noted.

2. 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 is buying, bid if provider is selling) at the time of the inquiry.

# Market Conditions and U.S. Credit

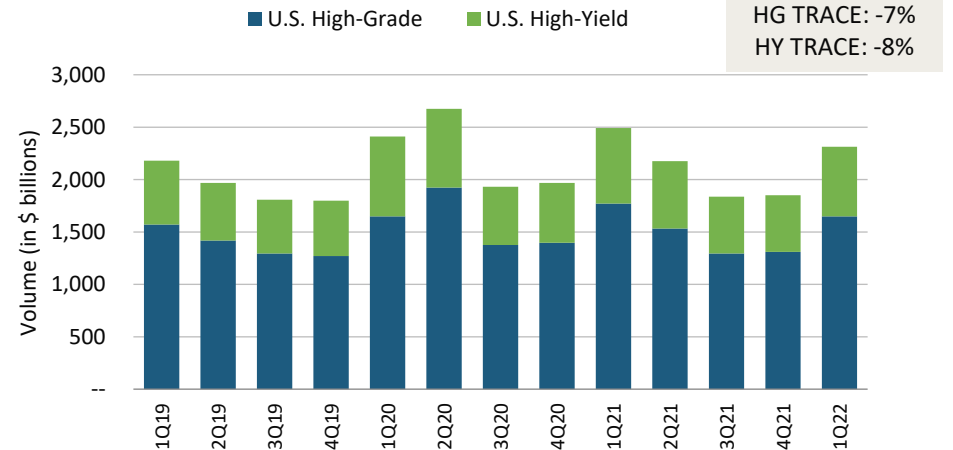
## LIQUID U.S. CORPORATE INDEX (LUCI)



Source: Credit Suisse Global Credit Strategy

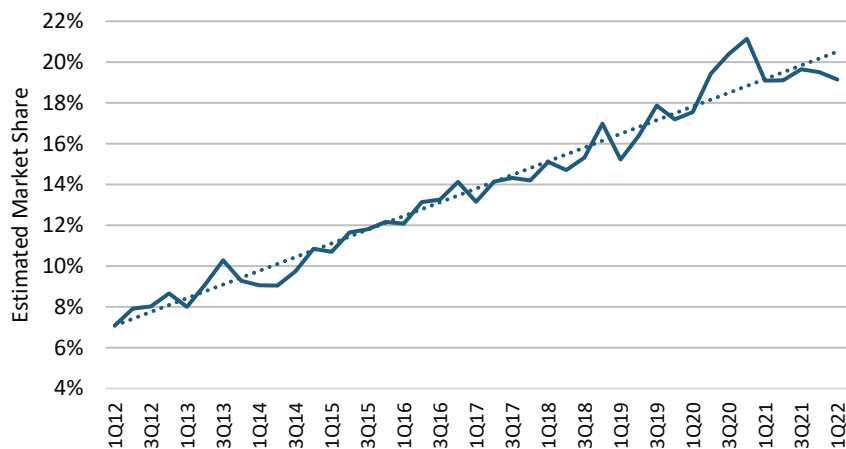
\*Data based on quarterly average

## U.S. HIGH-GRADE & U.S. HIGH-YIELD TRACE VOLUME

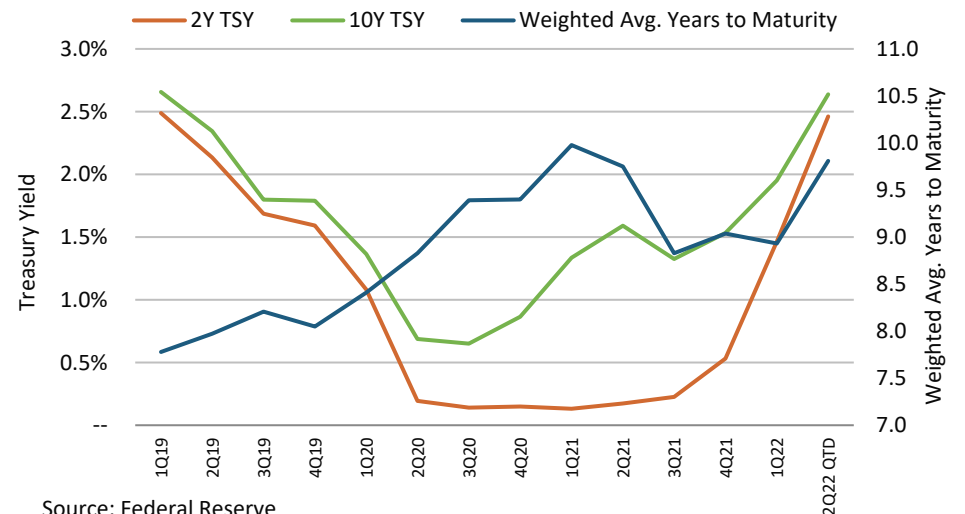


Source: BondTicker

## COMBINED ESTIMATED U.S. HIGH-GRADE AND U.S. HIGH-YIELD MARKET SHARE



## 10 YEAR & 2 YEAR TREASURY YIELD & MKTX U.S. HIGH-GRADE WEIGHTED AVG. YEARS TO MATURITY



Source: Federal Reserve

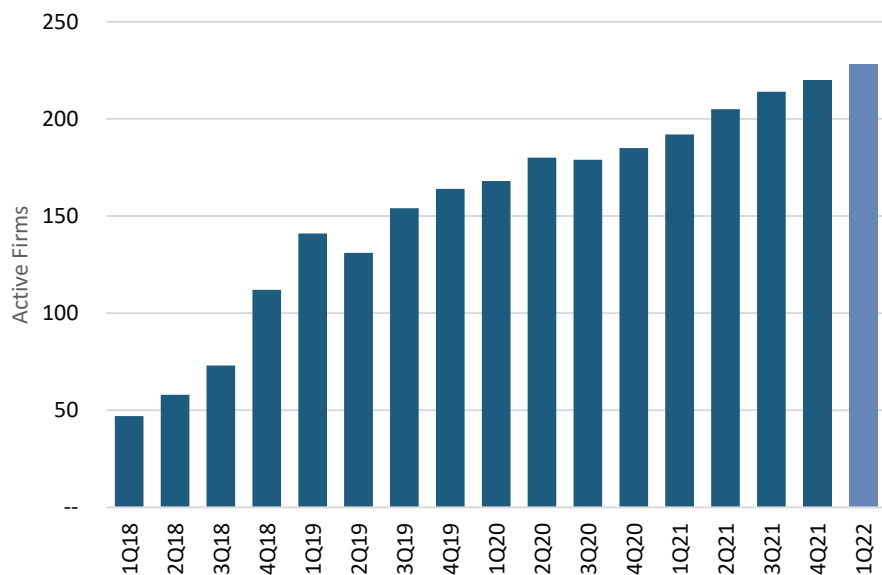
Note: Data based on quarterly average

# Expanding the Client Network

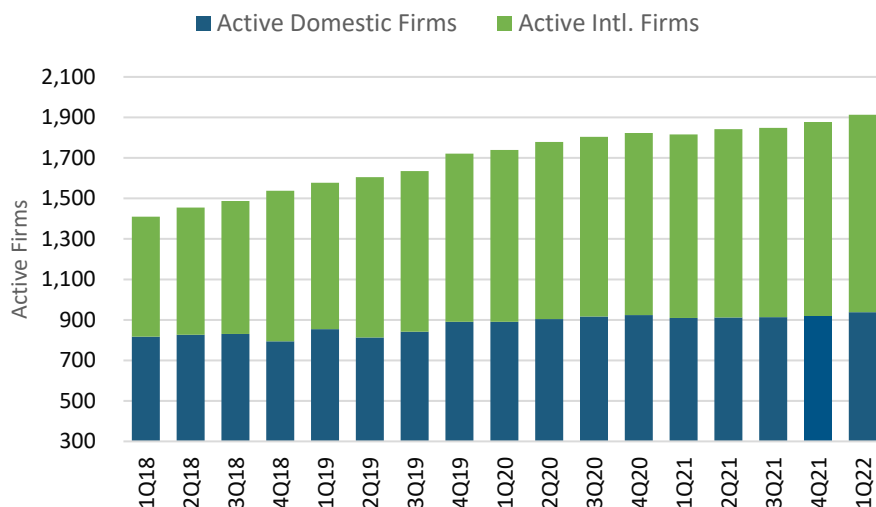
## HIGHLIGHTS

- Record active clients of 1,913
- Record active international clients of 975
- Record Asia active clients, up 19%, representing over 50% of the increase in active international clients
- Record international investor client traders (2,916, up 8%) and record international dealer traders (2,248, up 10%)
- A total of nearly 1,000 firms utilizing our European post-trade regulatory reporting services, up from 440 clients at the end of 2020
- 92% of credit trading on the platform was executed by institutional clients.

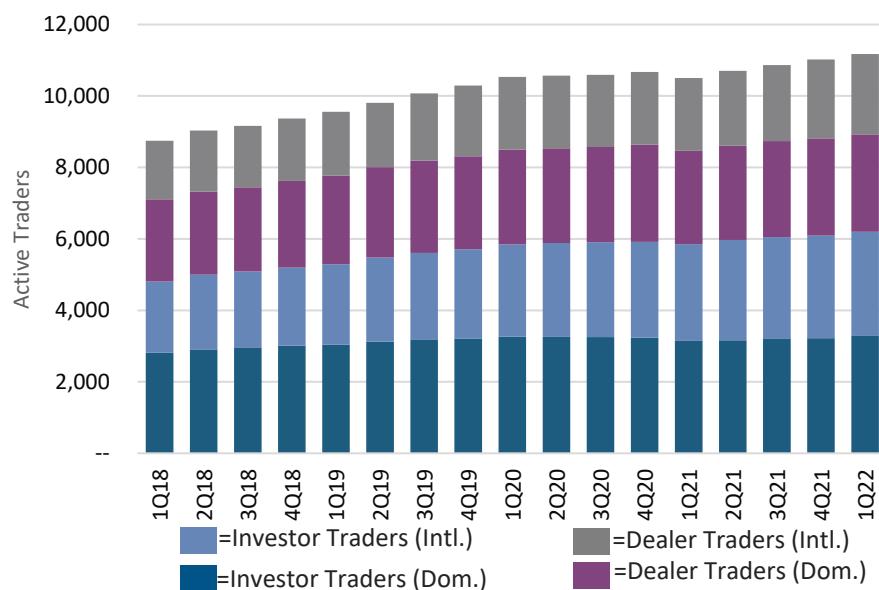
## ACTIVE ASIA CLIENTS



## ACTIVE CLIENT FIRMS

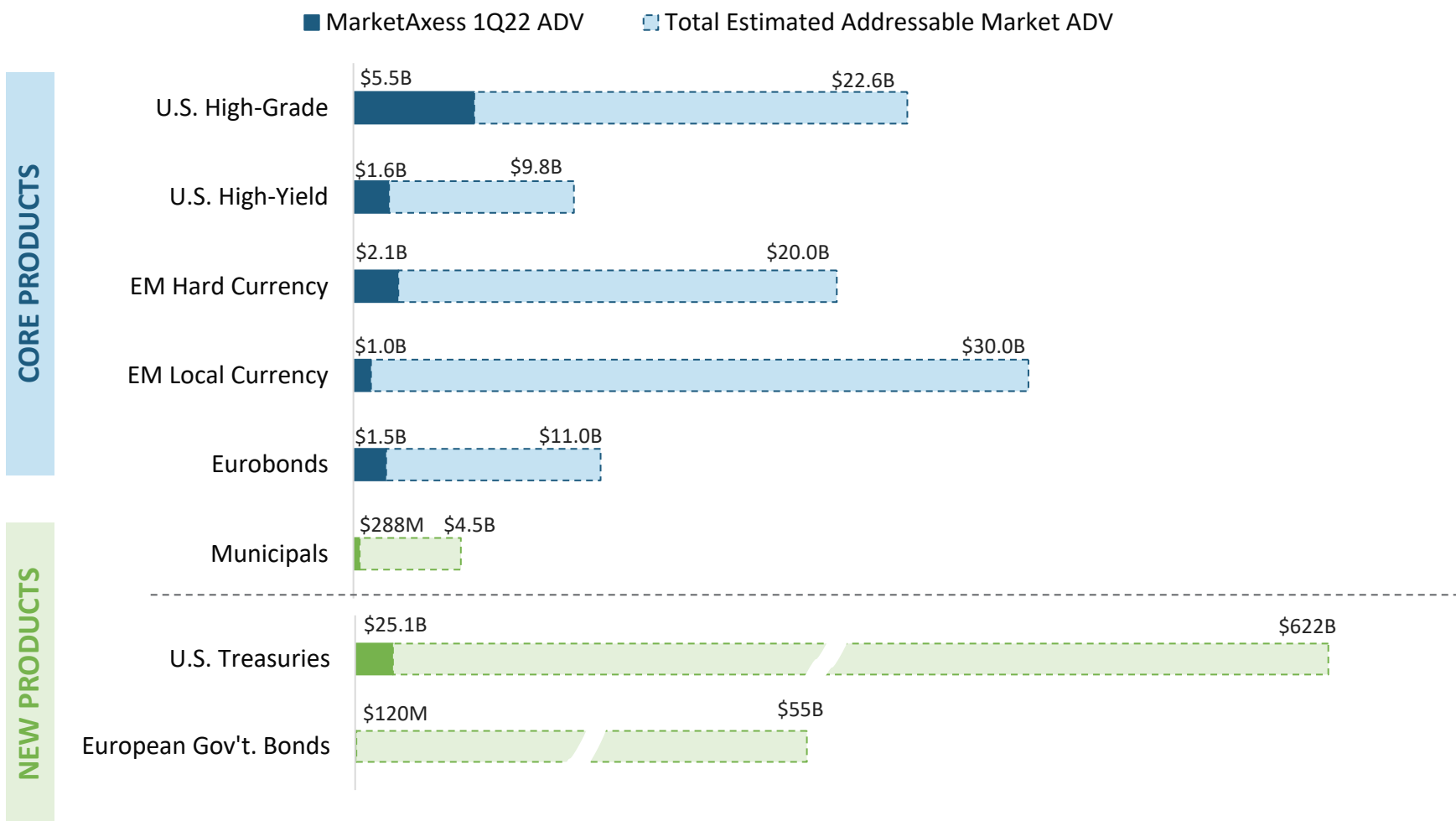


## ACTIVE INVESTOR AND DEALER TRADERS



# The Long-Term E-Trading Opportunity

## TOTAL ADDRESSABLE MARKET – 2021 ESTIMATES<sup>1</sup>



1. Source: Market volumes calculated using the most recently available market data for TRACE, Trax, Emerging Markets Trade Association, Municipal Securities Rulemaking Board, Loan Syndications and Trading Association, JPMorgan Research and various local market central banks. Excludes other new product opportunities including ETFs, mortgages and structured products.

# Update on Growth Initiatives

❖ Chris Concannon, President and COO

# Open Trading<sup>®</sup> is at the Core of All Products and Protocols

## OPEN TRADING HIGHLIGHTS

- Over 36,000 orders and \$20 billion notional value available through Open Trading central marketplace on average per day in 1Q22
- Estimated system-wide cost savings of \$133 million for liquidity takers and \$68 million for liquidity providers<sup>1</sup> in 1Q22 (total of \$201 million)
- Record 1,710 unique client firms executed a trade with MKTX

## LIVE MARKETS

- **Rates**-Record U.S. Treasuries Live Markets trading volume and trades in 1Q22
- **Credit**-1Q22 trade count has already exceeded FY2021 trade count, reflecting increasing momentum

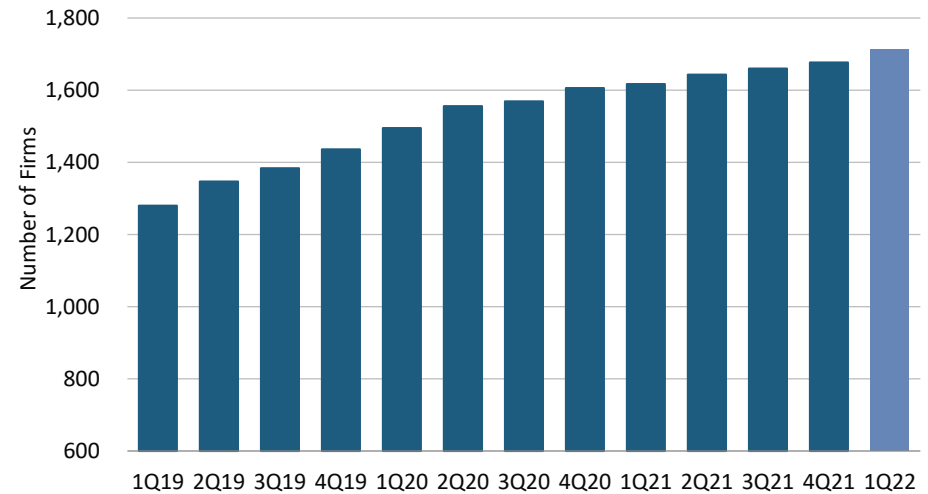
## DEALER RFQ

- Credit volume of \$64 billion in 1Q22

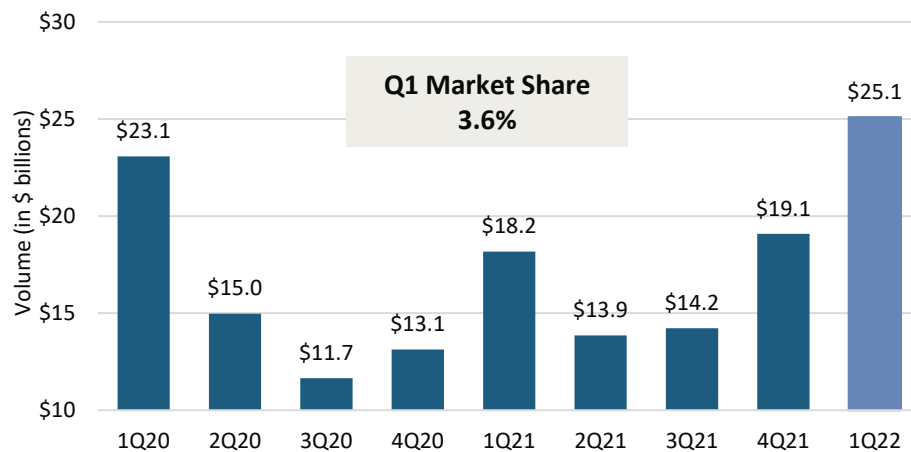
## MID-X

- Continued strong growth in Eurobonds, up 72%; gaining traction in U.S. products

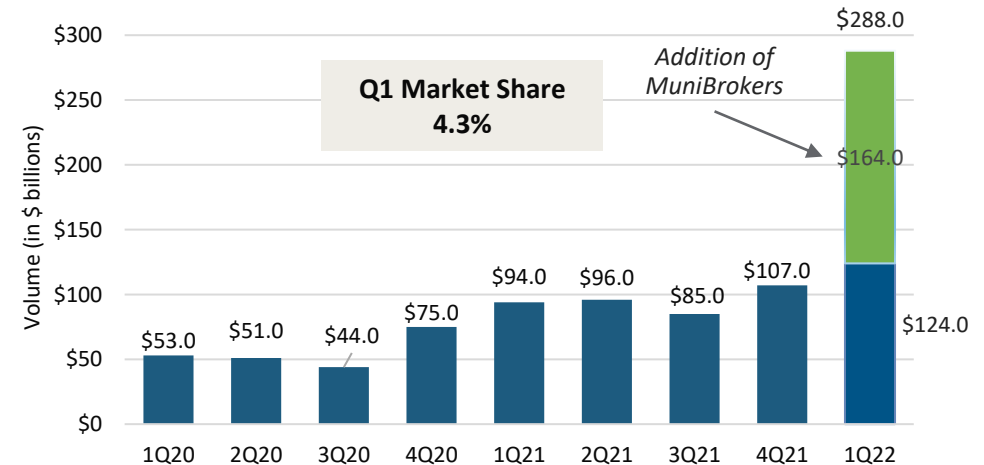
## UNIQUE OPEN TRADING FIRMS



## RECORD U.S. TREASURY ADV / RECORD MARKET SHARE



## RECORD MUNICIPAL ADV / RECORD MARKET SHARE



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 is buying, bid if provider is selling) at the time of the inquiry.

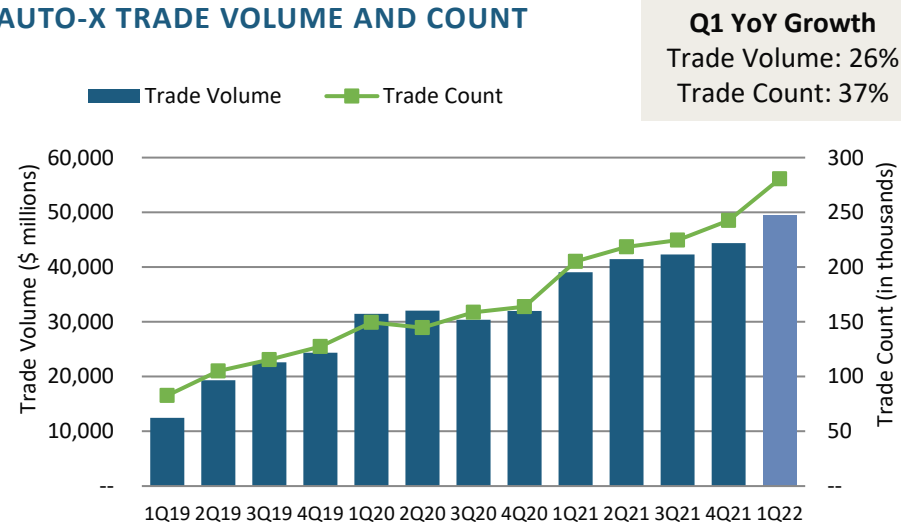


# Trading Automation Continues to Grow

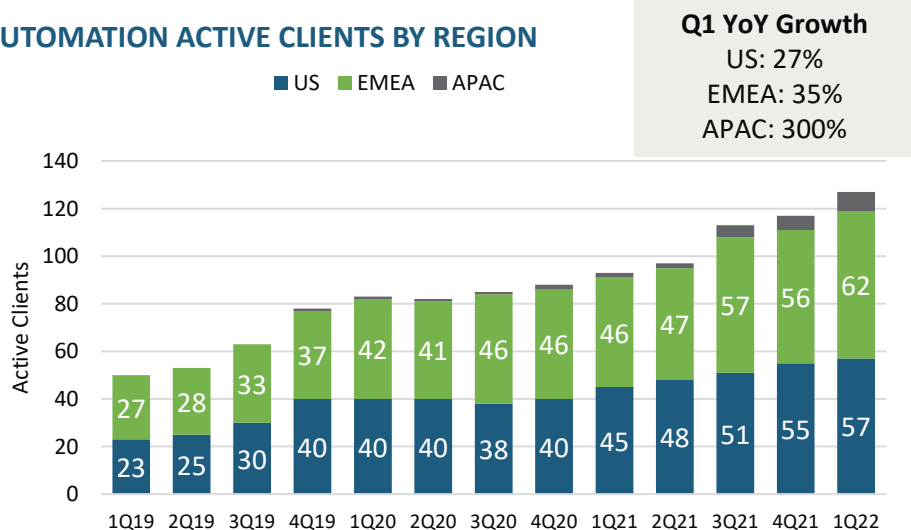
## HIGHLIGHTS

- Record active automation firms, up 34%
- Record 280,000 trades completed using automated execution, up from 205,000 trades in 1Q21
- Auto-X represented 18% of credit trade count and 7% of credit trading volume in 1Q22
- Record \$49.3 billion in Auto-X volume in 1Q22, up 26% from 1Q21
- 5.3 million algo responses in 1Q22, up 12% from 1Q21<sup>1</sup>

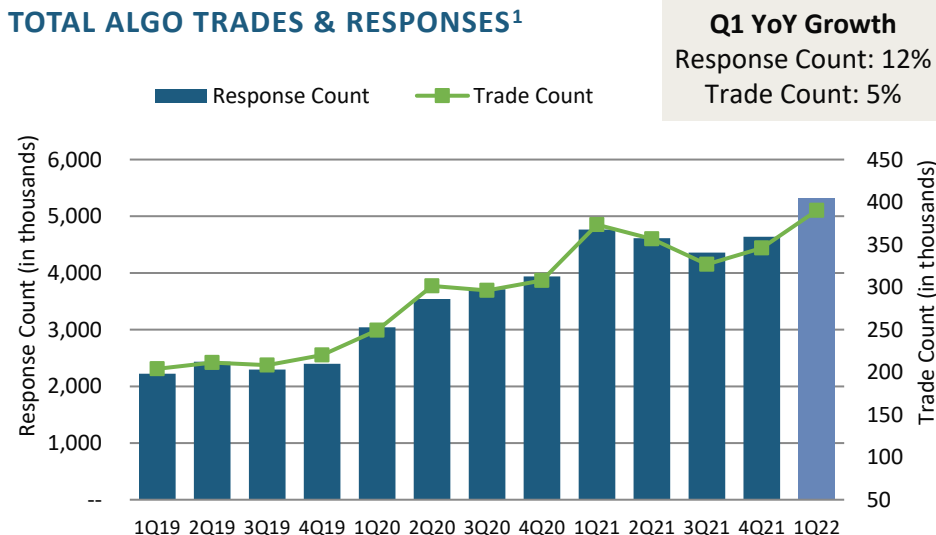
## AUTO-X TRADE VOLUME AND COUNT



## AUTOMATION ACTIVE CLIENTS BY REGION



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



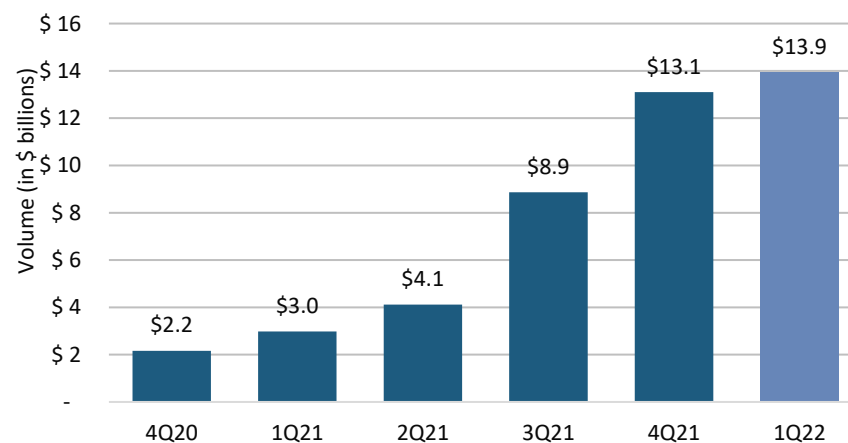
1. Algorithmic responses for U.S. high-grade and U.S. high-yield spread based trades only.

# Product, Protocol & Revenue Type Diversification

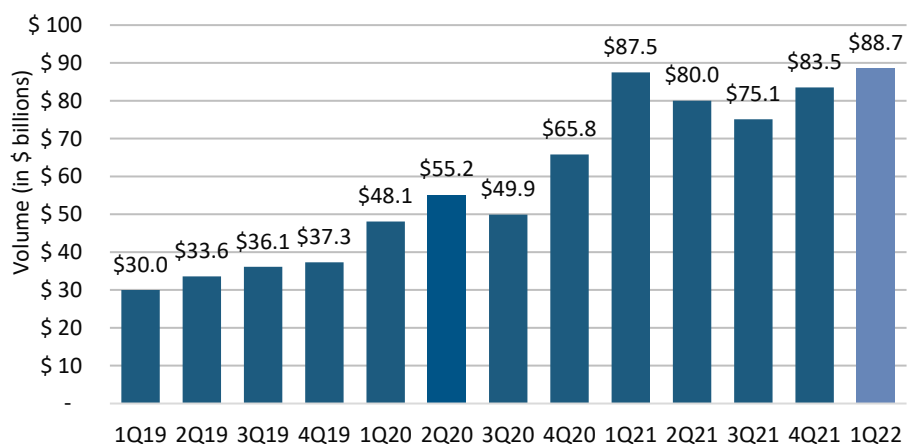
## HIGHLIGHTS

- Increasing contribution from new protocols, including Dealer RFQ, Portfolio Trading, Diversity Dealer Initiative, Mid-X, and Live Markets
- New protocols/initiatives represented 12% of total credit volume in 1Q22
- Record Portfolio Trading of \$14 billion
- Record combined information/post-trade services revenue
- Record \$51 million in recurring revenue, up 9%

## RECORD PORTFOLIO TRADING VOLUME

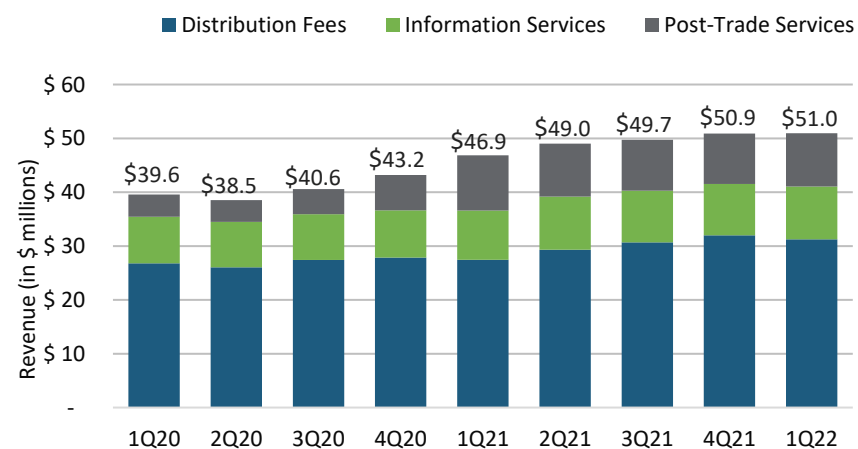


## CONTRIBUTION FROM NEW PROTOCOLS/INITIATIVES



Note: New protocols, new initiatives include Dealer RFQ, Portfolio Trading, Diversity Dealer Initiative, Mid-X, and Live Markets

## RECORD RECURRING REVENUE



Note: recurring revenue defined as distribution fees, information and post-trade services

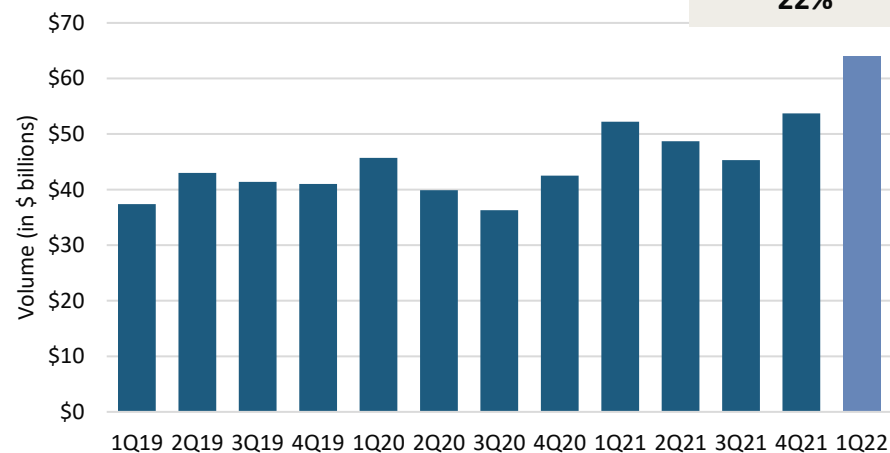
# Strength in Emerging Markets

## HIGHLIGHTS

- Record emerging markets active clients of 1,348, up 8%
- Record total quarterly emerging markets trading volume of \$190 billion, up 7%
- Record local markets trading volume of \$64 billion, up 22%, representing ADV of approximately \$1 billion
- Record local markets trading volume across LATAM, CEMEA and APAC

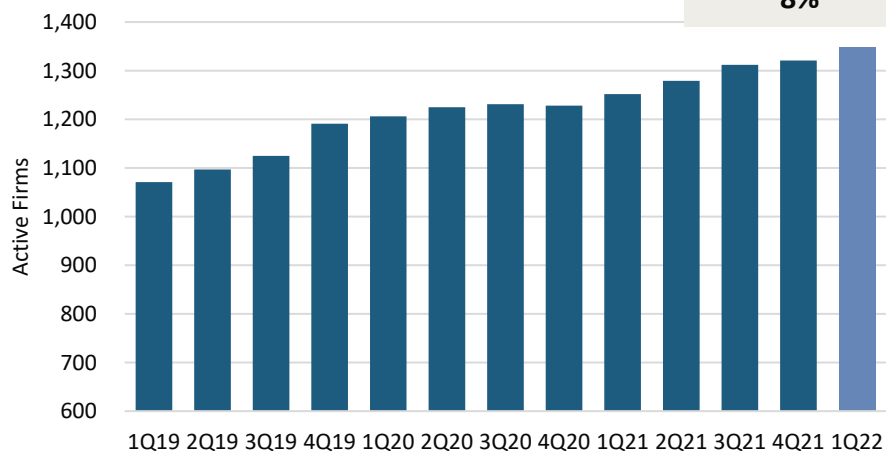
## LOCAL MARKETS TRADING VOLUME

**Q1 YoY Growth  
22%**



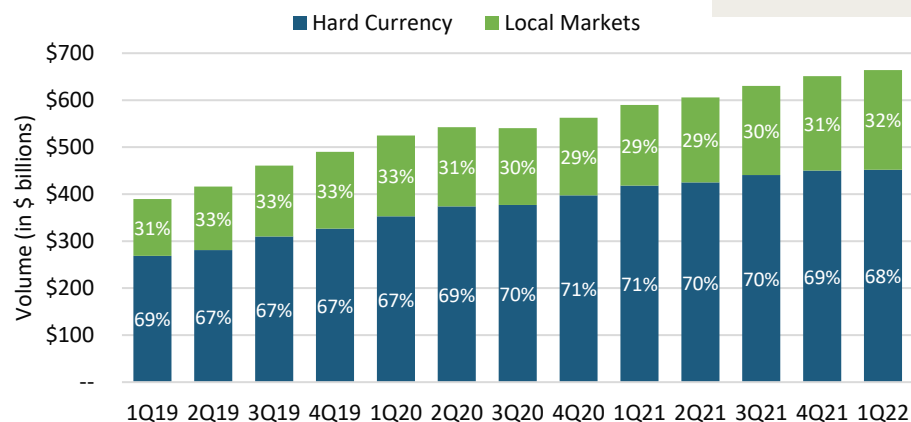
## EMERGING MARKETS ACTIVE CLIENT FIRMS

**Q1 YoY Growth  
8%**



## TTM EM HARD CURRENCY VS. LOCAL MARKETS

**TTM Q1 YoY  
Growth  
13%**



# Financial Review

◆ Chris Gerosa, CFO

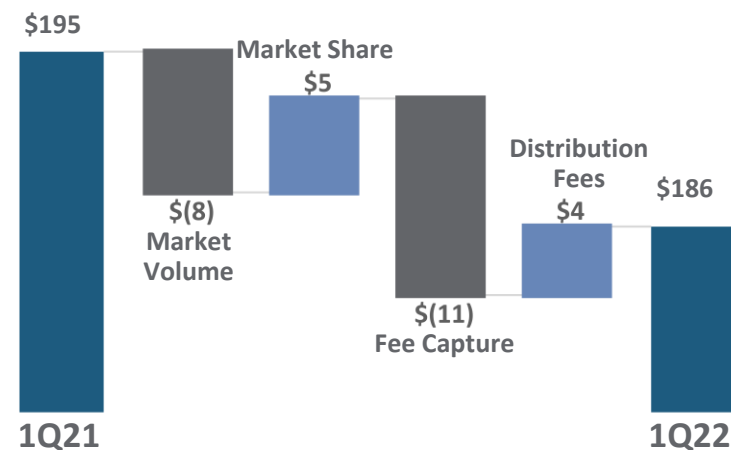
# 1Q22 Financial Summary

Financial Results	1Q22	4Q21	1Q21	1Q22 vs. 1Q21
Commissions	166,113	145,913	175,838	(5.5%)
Information Services	9,809	9,561	9,162	7.1%
Post-trade Services	9,912	9,369	10,261	(3.4%)
Other	223	217	203	9.9%
<b>Total Revenues</b>	<b>186,057</b>	<b>165,060</b>	<b>195,464</b>	<b>(4.8%)</b>
Expenses	97,953	92,479	91,990	6.5%
Operating Income	88,104	72,581	103,474	(14.9%)
Other income (expense)	2,315	(1,006)	(1,673)	(238.4%)
<b>Income Before Taxes</b>	<b>90,419</b>	<b>71,575</b>	<b>101,801</b>	<b>(11.2%)</b>
Provision for Income Taxes	25,650	19,390	21,344	20.2%
<b>Net Income</b>	<b>64,769</b>	<b>52,185</b>	<b>80,457</b>	<b>(19.5%)</b>
Operating Margin	47.4%	44.0%	52.9%	-5.6 pts
EBITDA	105,593	82,804	113,580	(7.0%)
EBITDA Margin	56.8%	52.3%	58.2%	-1.4 pts
<b>Diluted EPS</b>	<b>\$ 1.71</b>	<b>\$ 1.37</b>	<b>\$ 2.11</b>	<b>\$ (0.19)</b>
Diluted Shares	37,824	38,046	38,155	(0.9%)

## COMMENTARY

- The 6% decline in commission revenue was due to lower transaction fees offset by a 17% increase in distribution fee revenue
- Record combined information services and post-trade services revenue of \$19.7 million
- Other income (expense) net gain of \$2.3 million, compared to 1Q 21 loss of \$(1.7 million)
  - 1Q 22 includes a contingent liability revaluation gain of \$1.6 million and FX gain of \$1.3 million (\$0.06 per diluted share gain)
- Provision for income taxes includes \$3.2 million tax charge related to settlement with New York State tax authorities (\$0.08 per diluted share loss)

## REVENUE BRIDGE 1Q21 to 1Q22



# Commission Revenue Detail

Commissions	1Q22	4Q21	1Q21	1Q22 vs. 1Q21
Transaction Fees				
U.S. High Grade	52,878	46,173	65,356	(19.1%)
Other Credit	75,804	62,767	78,899	(3.9%)
Total Credit	128,682	108,940	144,255	(10.8%)
Rates	6,191	4,992	4,143	49.4%
Total Transaction Fees	134,873	113,932	148,398	(9.1%)
Distribution Fees				
U.S. High Grade	23,026	22,665	20,970	9.8%
Other Credit	8,152	9,262	6,404	27.3%
Total Credit	31,178	31,927	27,374	13.9%
Rates	62	54	66	(6.1%)
Total Distribution Fees	31,240	31,981	27,440	13.8%
<b>Total Commissions</b>	<b>166,113</b>	<b>145,913</b>	<b>175,838</b>	<b>(5.5%)</b>
<b>Transaction Fees per Million</b>				
U.S. High Grade	\$ 154.57	\$ 166.15	\$ 179.83	(14.0%)
Other Credit	\$ 187.76	\$ 192.23	\$ 201.78	(6.9%)
Total Credit	\$ 172.54	\$ 180.24	\$ 191.20	(9.8%)
Rates	\$ 3.92	\$ 4.14	\$ 3.70	6.1%

## COMMENTARY (1Q22 vs. 1Q21)

### U.S. High Grade

- Reduction in transaction fees mainly due to reduction in fees per million, which was impacted by the following:
  - Shorter years to maturity of bonds traded on platform
  - Higher bond yields
- Increase in distribution fees due to higher unused monthly minimum commitment fees and dealer renewals at higher fee levels

### Other credit

- Reduction in transaction fees due to larger percentage of trading volume in local market EM that command lower fees and dealers migrating to fixed distribution fee plans from all-variable fee plans

### Rates

- Increase in transaction fees due to increased market share

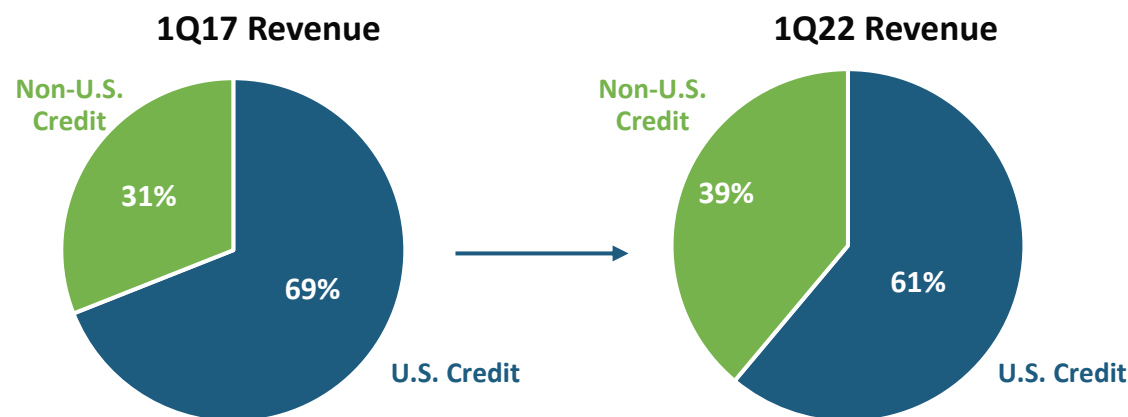
# Expense Detail

Expense Summary	1Q22	4Q21	1Q21	1Q22 vs. 1Q21
Employee Compensation and Benefits	47,756	41,218	48,088	(0.7%)
Depreciation and Amortization	15,174	14,607	11,779	28.8%
Technology and Communications	12,192	11,229	10,036	21.5%
Professional and Consulting	9,621	10,734	9,640	(0.2%)
Occupancy	3,387	3,438	3,317	2.1%
Marketing and Advertising	1,789	2,906	1,204	48.6%
Clearing Costs	4,575	3,739	4,694	(2.5%)
General and Administrative	3,459	4,608	3,232	7.0%
<b>Total Expenses</b>	<b>97,953</b>	<b>92,479</b>	<b>91,990</b>	<b>6.5%</b>

## COMMENTARY (1Q22 vs. 1Q21)

- Total expenses of **\$98.0** million, up **7%** on continued investment; up **5%**, excluding acquired intangible amortization
- Year-over-year increase in operating expenses of \$6 million mainly due to investments to drive revenue diversification through acquisitions and trading system enhancements to support product & protocol expansion
- Depreciation and amortization expense increased \$3.4 million due to higher software development depreciation expense of \$1.8 million and acquired intangible amortization expense of \$1.4 million
- Technology and communications expense increased \$2.2 million due to higher software subscription costs, market data expense and platform technology licensing fees

*Committed long-term investment driving revenue diversification*



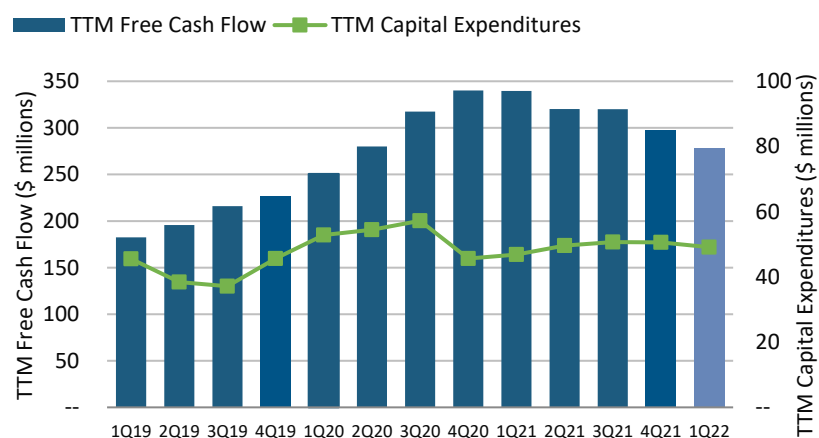
# Cash Flow and Capital Management

## QUARTERLY OVERVIEW

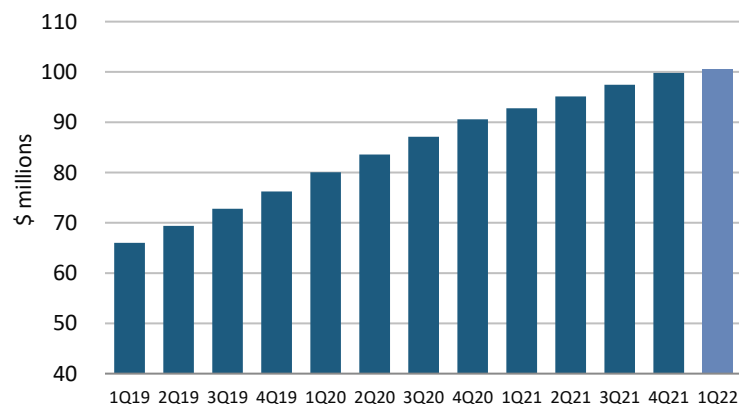
- Total cash and investments of \$400.4 million
- Trailing 12-month capital expenditures of \$49.1 million to support investment in trading system enhancements
- Trailing 12-month free cash flow of \$278.3 million
- \$65.3 million in capital returned to investors in 1Q22 (share repurchases and dividends)
- No outstanding debt on borrowing facilities

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

**Q1 TTM FCF YoY Growth<sup>2</sup>**  
5YR CAGR 12%



## TTM QUARTERLY DIVIDENDS



1. See first quarter 2022 earnings release and the Investor Relations section of the Company's website for a reconciliation of net cash provided by operating activities to free cash flow.  
2. 5-year compound annual growth rate "CAGR" calculated on a trailing twelve months basis.



## Key Takeaways

- Strong execution against growth strategy
- Market conditions improving in global fixed income
- Results reflect increasing product/international diversification
- New protocols (e.g., Live Markets, Mid-X, Portfolio Trading) gaining traction
- Trading automation adoption continues to build
- Value of our content (data and post-trade) positions us to create suite of new data products – MKTX 400 / European Fixed Income Trade Tape

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## Non-GAAP Financial Measures and Other Items

To supplement the Company's unaudited financial statements presented in accordance with generally accepted accounting principles ("GAAP"), the Company uses certain non-GAAP measures of financial performance, including earnings before interest, taxes, depreciation and amortization ("EBITDA") and free cash flow. The Company believes that these non-GAAP financial measures, when taken into consideration with the corresponding GAAP financial measures, are important in understanding the Company's operating results. See the investor relations website at <http://investor.marketaxess.com> for a reconciliation of GAAP net income to EBITDA and GAAP cash flow from operating activities to free cash flow.



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