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MKTX - Q4 2017 Marketaxess Holdings Inc Earnings Call

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CORPORATE PARTICIPANTS

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

David Cresci

Richard Mitchell McVey *MarketAxess Holdings Inc. - Chairman & CEO*

CONFERENCE CALL PARTICIPANTS

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

Christopher John Allen *Rosenblatt Securities Inc., Research Division - Senior Research Analyst*

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

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

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

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

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. (Operator Instructions) As a reminder, this conference call is being recorded, January 31, 2018.

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 Fourth 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 results.

Before I turn the call over to Rick, let me remind you that today's call may include forward-looking statements. These statements represent the company's beliefs regarding future events that, by their nature, are uncertain. The company's actual results and financial 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 Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

Good morning, and thank you for joining us for the fourth quarter and full year earnings call. Global trading volume for the quarter was up 5%, led by record emerging market volumes and continued growth with international clients. Open Trading volume also reached record levels in the fourth quarter.

Revenue of $99.6 million in Q4 was up 5%, and pretax income was down slightly year-over-year. EPS of $0.88 was flat to last year. We believe these results, on a relative basis, were very strong given the extremely benign market conditions and comparative results elsewhere in the industry for the quarter. Based on our estimates of market volumes during the quarter, U.S. high-grade market share rose to a record 17.6%.

The competitive landscape continues to be an area of interest for our investors and stock analysts. Unfortunately, very little consistent volume and revenue data is available from private company competitors. As a result, we believe the Greenwich Associates annual e-trading survey provides a relevant and independent review of market share trends. Their investor survey results released in Q4 confirm that our competitive position continues to get stronger, with an estimated 86% electronic market share in U.S. high-grade and high-yield trading.

Slide 4 highlights our full year results and continued strong growth rates. 2017 marks the ninth consecutive year of record trading volume, revenue and operating income. Full year 2017 revenue was a record $397 million, up 7.4% from 2016, and diluted EPS was a record $3.89, up 16.5%. Transaction revenue for 2017 was up 6.9% year-over-year to a record $355 million as overall trading volumes reached a record $1.5 trillion, up 11.4%. 3- and 5-year results show attractive long-term, compound growth rates, creating superior returns for MarketAxess' shareholders. Trailing 12-month free cash flow was $160 million. In light of our strong results and outlook for continued growth, the Board of Directors approved a 27% increase in the regular quarterly dividend to $0.42 per share.

Slide 5 provides an update on market conditions. 2017 was a highly unusual year, with credit spread volatility and interest rate volatility at decade lows. Credit spreads also continued their one-way path of tightening, ending the year at historically low levels. On a broader scale, the past 6 to 7 years had been extraordinary times in global bond markets. Central banks have injected nearly $12 trillion in new liquidity from quantitative easing into bond markets around the world, sending nearly $10 trillion in government bonds to negative yields. The impact of this central bank activity has led to increased inflows for U.S. credit funds as investors search for yield. This demand has fueled record growth in corporate bond issuance with another annual record in 2017.

Over the last few quarters, we have seen signs of central banks pulling back from quantitative easing, resulting in a modest increase in interest rates. We believe that higher interest rates could spur greater activity in secondary trading. The growth and the size of the global credit markets, combined with regulatory trends such as MiFID II, create a large and growing market opportunity for electronic trading in global credit.

Slide 6 shows our volume and trade count by product. Our strong year-over-year volume gain of approximately $150 billion was driven by record volume in U.S. high-grade and emerging markets. High-grade volume was up $94 billion during the year, extending our lead in the space. The growth in overall trading activity was driven by share gains with existing clients as well as the continued growth in new clients. For the full year, total active client firms grew to over 1,300 firms, and all of our major products show an increase in active clients.

We are especially pleased with the continued momentum in our emerging markets business. In 2017, emerging markets volume was up 37% year-over-year to a record $307 billion. Overall, across all products on the platform, the percentage of volume from international clients grew to 26% versus 22% in 2016. Client and product diversification creates a strong foundation for future growth.

Since today is the last day of trading in January, I want to give you an update on business trends to start the year. January is currently on track to be a record month for average daily trading volume at around $7 billion per day. EM growth continues to lead the way with another record month. As is typically the case, January high-grade market share is below the fourth quarter average but well above last January. We will provide the final January results in a few days.

Slide 7 provides an update on Open Trading. Open Trading average daily volume of $926 million in 2017 was up 34% year-over-year. In 2017, Open Trading represented 16% of the total volume traded on the platform. For the full year, we averaged 2,500 open trades per day.

Liquidity takers experienced an estimated cost savings of $90 million in 2017. Participants benefited from average transaction cost savings of approximately 2.2 basis points in yield when they completed a U.S. high-grade transaction through Open Trading protocols. When compared to our Composite Price realtime mid-market estimate for corporate bonds, we believe that liquidity providers are achieving similar savings in transaction costs. Currently, 16% of client trades on MarketAxess experience price improvement from Open Trading, up from 13% in 2016.

Dealer-initiated open trades reached another new high of 24% of all Open Trading volume last year, up from 17% in 2016. Open Trading is increasingly becoming an important distribution channel for dealers and their efforts to increase trading velocity and reduce balance sheet usage. Our vast network of investors and dealers operating in Open Trading provides an additive pool of liquidity for both dealers and investors. In 2017, Open Trading accounted for 37% of U.S. high-yield volume, 16% of U.S. high-grade volume and 12% of emerging markets volume.

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

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

Thank you, Rick. Please turn to Slide 8 for a summary of our trading volume across product categories.

Our global volume increased 5% for the quarter, while estimated aggregate market volumes were flat. We closed out the year on a strong note, with record estimated monthly market share in December for U.S. high-grade, high-yield and emerging market bonds, and as Rick just mentioned, the increased trading activity has carried over into January. U.S. high-grade volumes were $201 billion for the quarter, up 9% year-over-year on a combination of higher estimated market share and a 6% increase in market volume.

Volumes in the other credit category were up 4% year-over-year and 6% sequentially. Emerging markets trading was again the standout this quarter, with an average daily volume of $1.3 billion, a significant uplift both sequentially and year-over-year. High-yield and Eurobond trading volumes were flat sequentially.

The estimated average daily total market volume across our product set is approximately $68 billion. For 2017, our average daily volume was $5.8 billion, leading to a composite estimated share of around 9% or double the level from 5 years ago. And every percentage point of market share is equal to approximately $35 million in annual transaction revenue. Client engagement is increasing. There is significant room to grow market share, and we are making the necessary investment to drive electronic adoption higher.

On Slide 9, we provide a summary of our quarterly earnings performance. Overall, revenue was up 5%, and quarterly commission revenue was up 3% as we faced a tough year-over-year comparable with the heightened market activity post-election in 2016. You will notice that we also recast our revenue reporting to provide a clearer picture of our information services and post-trade businesses.

Information services revenue was up 20%, principally due to new recurring data contracts. The uptick in post-trade services revenue is mainly due to MiFID II implementation fees. While the post-trade services revenue has historically grown at a low single-digit pace, we expect revenue growth in 2018 of more than 20%.

Operating expenses were up 14% year-over-year, leading to a 2% decline in income before taxes. The effective tax rate was 32% in the fourth quarter and reflects offsetting items. We recognized $11.4 million or $0.30 per share in excess tax benefits from share-based compensation. This benefit was offset by a onetime tax charge of $11.7 million or $0.31 per share to reflect the impact of the Tax Cuts and Jobs Act, which was signed into law in December. Our diluted EPS was $0.88 on a fairly stable diluted share count of 37.9 million shares.

On Slide 10, we have laid out our commission revenue, trading volumes and fees per million. Total variable transaction fees were down 6% year-over-year as the 5% increase in trading volume was offset by the impact of our new high-yield fee plan and the mix shift within certain products. U.S. high-grade fee capture was up slightly on a sequential basis and down $13 per million from the fourth quarter of 2016. The year-over-year change reflects lower execution fees caused by 2 dealers shifting to the distribution fee plan and a higher percentage of volume traded in larger-sized buckets.

Our other credit category fee capture was down $22 on a sequential basis. Approximately half of the variance was due to a full quarter's impact from the new high-yield fee structure implemented effective August 1. The lower high-yield transaction fees were offset by a $1.6 million increase in distribution fees. We also experienced a typical swing from the other credit category fee capture, resulting from mix shifts, mainly a higher percentage of emerging markets volume in sovereign bonds.

Slide 11 provides you with the expense detail. Sequentially, expenses increased by 1%. The most significant increase was in marketing and advertising, which tends to swing period-to-period depending on the timing of campaigns and events. Compensation and benefits declined $1.3 million sequentially on lower variable incentive compensation, which is tied directly to operating performance. Full year 2017 expenses of $196 million were up 10% versus 2016. Total year-end headcount of 429 was an increase of 46 from year-end 2016.

On Slide 12, we provide balance sheet and capital management information. Cash and investments as of December 31 were $407 million, and free cash flow reached $160 million in 2017. Dividends and share repurchases, including net downs on option exercises and restricted stock vesting, aggregated $120 million. Our recurring quarterly dividend is an important element of our capital management strategy. With the announced 27% increase to $0.42, we have more than doubled the quarterly dividend rate in just the past 3 years. During the fourth quarter, we repurchased a total of 33,000 shares under our share buyback program. As of December 31, approximately $94 million was available for future repurchases under this program.

On Slide 13, we have our 2018 expense capital expenditure and income tax rate guidance. We expect that total 2018 expenses will be in the range of $220 million to $232 million, inclusive of approximately $8 million of duplicate occupancy costs on new corporate offices we are building out at 55 Hudson Yards in New York City. We took possession of the space in mid-January and have a targeted move-in date in December of this year. Excluding the duplicate occupancy cost, the midpoint in the guidance range suggests an approximate 11% year-over-year increase in expenses, which would be a little higher than our growth rate over the past 5 years. 2018 capital expenditures are expected to range from $43 million to $50 million and include approximately $25 million of build-out cost for the Hudson Yards office space.

We expect that the effective tax rate for full year 2018 will range from 23% to 25%. The reduction in the U.S. federal income tax rate is expected to reduce our effective tax rate by roughly 10 percentage points. The guidance range also incorporates an estimate for excess tax benefits on restricted stock schedule to vest in 2018 of roughly $2 million, with the majority of that benefit recognized in the first quarter. The combination of the significant stock option exercises in 2017, the lower federal tax rate and other tax reform charges means that the expected excess tax benefits in 2018 will be significantly lower than 2017.

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

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

Thank you, Tony. We are pleased with the fourth quarter and full year results given the difficult trading conditions during the year. We continue to invest heavily to build valuable technology solutions for our clients to reduce transaction costs. Our global client network continues to grow, and the credit markets are more focused than ever on improving trading efficiency. We are excited about the large opportunity ahead, and the new year is off to a good start.

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

QUESTIONS AND ANSWERS

Operator

And our first question comes from Rich Repetto with Sandler O'Neill.

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

Rick, Tony, I guess the first question is, with MiFID II, that appeared to be -- or appears to be a strong catalyst for electronic trading in the European markets. I'm just trying to see -- in January, one of your peers has reported an uptick in trading, but again, like you said, the private company comps are difficult to sort of get a clear look. But what you're experiencing in Europe in January, are you getting the benefit of MiFID II in your electronic trading?

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

I think we're encouraged by the early signs, and the growth in January volumes that I outlined earlier is led by European clients. And by way of reminder, we have a broad-based and diversified business with those clients in EM, U.S. credit and eurobonds. And we believe that the reason that, that trading activity up is attributable to MiFID II. I would also say that we've seen a significant increase in phone trade processing, which, of course, we do not include in our electronic trading volumes. But those numbers are up as well, suggesting that European clients do want to get more trades on regulated venues for reporting purposes. And then as Tony mentioned earlier, it's also having a positive impact on our reg reporting business or Trax. And we continue to be encouraged about the developments we see in our data products.

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

That helps. And then I guess one for Tony. You mentioned that the 11% midpoint expense increase year-over-year was a little bit higher than usual. And could you expound a little bit more on where the spending? And did that -- is the increase partly driven by increased cash flow from tax reform as well? Or just a little bit of color behind that, the increase.

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

Sure, Rich. I don't think the tax reform piece of it or any benefits from tax reform really influenced our plans around investing. And we're going to continue to invest. We're investing to expand the geographic reach, expand the addressable market, launch new protocols, launch new products and also address what's happening on the regulatory front. And just to give you some color, while that 11% midpoint is slightly higher than the 5-year CAGR, there's a couple of items in there. And I tell you for MiFID II and for Brexit, there are discrete incremental spending upwards of $5 million that will be in the recurring run rate going forward, but that's incremental spending that will result in 2018. So that's a bit of an uplift. And I tell you, the second piece, you have to remember that 30% of our expenses, right around 30% are denominated, and the functional currency is not the U.S. dollar, so we are subject to FX swing. Just that FX movement with the dollar weakening, it does add around $2 million or $3 million in year-over-year expenses. And so if you -- and this isn't to make any excuse. But if you were to carve out those 2 items, you're looking at an expense increase somewhere around 7% or 8%. But just, again, not to make excuses. We're trying to be helpful on trying to explain where the components are.

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

Got it. And just one last quick one. You gave the tax rate guidance for the year. That's very helpful. But you said like the first quarter can be more volatile. I would assume because of the stock vesting. Any help on first quarter -- sort of a range for the effective tax rate in the first quarter?

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

Yes. So Rich, in those prepared remarks, I said the tax benefit right now -- and again, you have to realize that we're making estimates based on what we expect to vest based on where the share price will be. But what we're seeing right now that the excess tax benefits in 2018 would be somewhere around $2 million, and most of that will occur in the first quarter. Actually, most of it occurs today, to be quite frank about it. So most of that additional tax benefit will happen in the first quarter. And just rough numbers, we're guiding to a midpoint of 24%. You might see something like 21% in the first quarter and then 25% in Qs 2, 3 and 4. So it's not going to swing that much. So it will look a bit lower in the first quarter.

Operator

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

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

Just wanted to get a little bit of an update on the response you're seeing from some of the price changes around high-yield and Europe that you made in the back half of last year and see if client behavior is changing any on the back of it.

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

Sure. On high-yield, the changes went through in August. And we believe it's a fair and scalable fee model for all market participants on our system. Quite honestly, I think the flatness in high-yield share has had a lot more to do with the benign market environment and the lack of volatility than anything else. And you did see that we put up a record high-yield market share number in December. As volatility picks up, we're optimistic that we have a unique liquidity pool that serves the needs of our clients. And I think it will be important to watch the trends over the coming months and quarters to make sure that we're benefiting from the changes that we have made. So we think we're on the right track there, and we're in early days of those high-yield fee changes.

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

And did you have to tweak your pricing schedule at all with MiFID? Or is that the same as it was in 4Q?

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

No, I think everyone is going through the exercise of making sure that everything is standardized as required by the MTF regulations. And we're -- we did make a few changes to standardize the fee schedules and make sure that they're consistent with those new regulations. We -- there are also a lot of moving parts in terms of what will be included in MTF fees as more is disclosed. And there may be some modest modifications coming in the industry, and that could include us. It's -- we're really analyzing things as we go.

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

That's helpful color. And then, Tony, just one for you. Nice to see the dividend increase today. Just want to ask on capital flexibility, if the right opportunity came across, just wanted your updated thoughts on how much leverage you think your business could carry for a short period of time if there was an M&A opportunity that you were interested in.

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

It's a good question, Conor, because we -- there's no secret that we have a fair amount of cash and securities sitting on the balance sheet. And year-end, it was right around $405 million. And we don't need $405 million to run the business. So when we look at the money we need for regulatory and working capital purposes, we do have excess capital earmarked for -- to support Open Trading, so we have excess capital in our regulated entity. There is still a fair amount of excess cash on the balance sheet. We could use upwards of around $200 million of our cash and securities if the right opportunity came along. We don't have any leverage on today. We just posted a year where EBITDA was north of $250 million, so we have a fair amount of leverage that we could put on the company. So if the right opportunity comes along, we have the flexibility. We can act opportunistically that way. And it would be 2 or 3 or 4x EBITDA would be the type of leverage that we could put on comfortably.

Operator

And our next question comes from Kyle Voigt with KBW.

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

First one, I guess, just on the Thomson transaction with Blackstone. Just curious to get your thoughts on the transaction, how it could potentially impact the competitive environment with Tradeweb. And then just more broadly, maybe a follow-up to kind of Conor's question, but if you could help us understand your interest in potentially acquiring the other asset classes outside of cash corporate bonds, if there are assets for sale. It seems like in the past, you've been kind of just of the view that there's such a long runway here, that this is an important kind of focus your energy on the corporate bond space.

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

Sure. The first question, the news was new to us yesterday, along with most everyone else we've spoken to. So all we've done, Kyle, is read the same media reports and press releases that you have. It would appear from what we know that Tradeweb will be included in the assets that Blackstone is investing in, and that creates an additional owner of Tradeweb as well as all the other TR financial assets in Blackstone. TR, by all appearances, will stay involved with a meaningful equity stake. So it's too early to really predict or even speculate on what changes may come. At face value, we do not see any significant difference there in the competitive landscape. And on your second question in terms of M&A, clearly, we've been growing organically in many products beyond corporate bonds. And our interest are well beyond corporates. I would say we believe our competitive advantage is in credit. And the credit opportunity is very significant. And we think we've served our shareholders extremely well to focus on organic growth. We started another year with that as our primary focus. But there are assets within the credit markets that could be complementary, either in clients or products or regions, to help us expand inorganically. And we would be very interested in anything that fits with that long-term vision.

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

All right. And then second one, just on the market share. I think you said above January of last year in high-grade but below 4Q levels for high-grade specifically. Any color on high-yield in EM and how that's tracking versus 4Q levels?

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

I think with the ADV numbers that I outlined earlier, it's safe to assume that we've seen broad-based growth across products. And we'll have, as we always do, full detail on our January monthly results out in a few days across every product. But as I mentioned, we're really encouraged by the start to the year. And these are trading volumes that we've never seen before. And we're optimistic that between the slight increase that we're seeing in market volatility and the regulatory trends that the outlook for ongoing growth is very positive.

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

Great. And then last for me is just a follow-up on fees per million. Just the other credit fees per million seems a little bit lower than we expected. I mean, high-grade was a bit higher. But Tony, just on the high-yield product specifically, did that come in where you expected? I think you were guiding towards around $350 per million. Or did it come in a bit below that on the high-yield side? And just trying to think about how we should run rate that going forward.

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

Yes, Kyle, it came in literally spot on with that number. So what we've seen post August 1st implementation of the new fee schedule, that those high-yield fees are right around $350 per million. Now realize that when you look at high-yield, we have high-yield that trades on price, high-yield that trades on spread. We have Open Trading. So we have different fee plans or structures working across that. So there could be some swings, but we're 7 months into this or 5 months into this, and it's all been at around $350 per million.

Operator

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

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

So Rick, you mentioned trade spotting and how you guys have had some traction with that. Is that something where trade spotting for voice trades, if you do it, you kind of bring people into the MarketAxess ecosystem, and that leads to more electronic execution over time? Or is that, in your view, kind of a completely discrete type of activity?

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

Well, to be specific, Patrick, I mentioned phone trade capture. So these are trades that are conducted bilaterally by phone or other communication mechanisms between clients and dealers that trade off-system. And then one or both parties want those trades processed on-system. And so we believe that this is a post-trade activity that's obviously not an electronic trade on the platform, but it's an ancillary service for clients, obviously carries very low, if any, fees. So it's a service. But it does help our clients to increase their efficiency and accuracy of trade reporting. And of course, we were attracted to those clients staying on the system for more of their activity throughout the day.

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

Got it. And then as we think about your investment initiatives for 2018 and where you're going to be investing your technology, I think there's a few things that you've talked about in the past. One is retail pricing functionality, having streaming quotes. Another one is maybe having some sort of auction process throughout the day. What's your most updated thinking on where that spending goes in 2018?

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

Sure. We've got 4 or 5 different priorities, and I don't think any of them will come as a surprise to you. First, as we've mentioned over the last 2 or 3 quarters, we're really encouraged by the momentum that we have in global emerging markets trading. And that is a vast market that requires investment because we have created a comprehensive trading solution and marketplace for our clients that includes hard currency sovereign debt trading, EM corporate bond trading and increasingly, EM local market trading with about 25 or 26 local markets available for trading. So we -- one of the investments is to continue to expand the EM product offering while, at the same time, increasing sales resources to attract more EM local market dealers to the platform and more EM clients around the world. And international client diversification is a key priority for us. So a disproportion of those sales resources will continue to go into Europe and Asia and Latin America to really take advantage of what we see as a very large and growing EM product opportunity. Within our credit businesses, we're also encouraged by what we see in the investor and dealer desire to continue to increase trading efficiency. And one of the ways that we're helping with that is to invest in auto execution, which we rolled out in Q4 in Europe and we're in the process of rolling out now in the U.S. For small trades, this allows investors to execute electronically with absolutely no manual effort whatsoever, so another way that we can further increase their efficiency. And as you mentioned in retail, as we look at that space, we're encouraged by the liquidity pool that we have from micro-lot trading. And we do believe that, that can be extended further into the retail client segment, with a combination of some modest investments in technology to fit with retail client trading activity as well as sales resources to focus on the retail, wealth advisers and brokers. So those are some of the areas, but it's a full agenda. And we're pretty excited about the return on investment that we're seeing currently.

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

Got it. That's very helpful. And then one for you, Tony, and you're probably going to groan when I ask this. But now that we have kind of 2018 OpEx guidance, just initial thoughts on 2019. And I think specifically, for your occupancy line, do we basically just think of it as that $8 million from your new headquarters stays in, and then what you're currently paying for your existing headquarters rolls off?

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

That's a -- how can I groan? Patrick, asking about 2019. No, I'll try to be clear as possible on that. So you have to remember, as part of this, today, we lease about 55,000 square feet in 3 separate locations here in New York. And what we're doing with Hudson Yards, we're taking on 83,000 square feet. And the rent expense per square foot cost for Hudson Yards is right around 50% higher. So there will be an uplift. There will be an uplift in rent expense. And I'll try to be as clear as I can. If you're taking the GAAP numbers for this year, and last year, occupancy costs were around $6 million. If I'm telling you that the duplicate rent is about $8 million, that means this year, for 2018, you should probably model in something close to $14 million for occupancy cost. And when the new space comes online fully and we exit 299 Park 10th floor, 299 Park 12th floor, 560 Lexington, you can expect those occupancy costs to come down around $3 million. So $6 million last year, up to $14 million, down to $11 million for 2019. That's about as clear as I can get.

Operator

And our next question comes from Chris Shutler with William Blair.

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

Regarding progress on larger trade sizes, can you give us the block percentage in the quarter, and maybe just -- can you quantify in some way the progress that you've made on the workup functionality or (inaudible) matching?

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

Sure. I think that if you look at our share gains last year in high-grade, most of it came from larger trade sizes, both $1 million to $5 million and $5 million and up. So around 70% of our volume and U.S. high-grade comes from $1 million and up trade sizes, and about 23% of our volume comes from $5 million and up. So increasingly, the share gains are coming from larger trades. I think I'm right in saying that we're running around 9.5% or so of what we see in TRACE block trades for high-grade. So there is definitely progress there in terms of clients getting more comfortable, especially with liquid bonds, trading larger ticket sizes on the platform. I'd point out 2 things. One, we are having some success with workup. And sometimes, that starts with a $2 million trade and ends with a series of trades that add up to something more meaningful in the block trading category through Open Trading. The other example I would give, Chris, is in emerging markets trading. During the course of last year, we introduced a request for a market protocol for 2-way responses in EM local markets, and we've seen very fast take-up of block trading in EM local markets through that protocol. So we will continue to invest to deliver technology solutions that really fit for both investors and dealers to continue to do more large trade sizes on the system.

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

All right, Rick. And then just one more. You talk about the -- you've seen really strong growth in emerging markets. Is that -- is more of that growth being driven by existing clients trading more? Or is it being driven more by addition of new clients? I know it's a combination of both but just trying to figure out what's the more important driver historically and what will be the more important driver over the next couple of years.

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

I honestly -- I'm not sure we have the exact number, but you're exactly right. It's been both. We have taken on a lot of new clients in EM over the last 12 months globally. I will tell you that there's a disproportionate share last year of our EM growth that came from international clients in Europe and Asia, which is why we're increasing our resources there. Those new clients have been incredibly important to our EM growth. The existing clients were, prior to 2017, were primarily in the U.S. Their volumes are up. But if you look at last year, the growth of new international clients, I think, would be the distinguishing feature for the year. And we have reasonable estimates on EM market size given the numbers that we can see from TRACE EM corporate bond reporting but, importantly, our Trax database in London. And as much as we've grown over the last 2 or 3 years in EM, we estimate that we're around 9% of the market opportunity currently. So with client adoption really heating up and our investment in both protocols and sales to attract and onboard new clients, we're really encouraged that this could be a long-term growth opportunity for the company.

Operator

(Operator Instructions) And our next question is a follow-up from Rich Repetto with Sandler O'Neill.

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

Yes. Rick, just a little -- try to learn from your experience in the fixed income markets. But you look historically, your market share in December is -- a lot of times -- most of the times it's the highest of the year, and it comes down in January. And just could you explain a little bit of the color behind that? I know we can look at issuance and we can look at the trade size and block. But can you give us a little bit deeper insight on why that happens and, I guess, what we could expect this year? I know you gave the range -- some of the ranges already, but what's really going on? What's the market catalyst for this to happen all the time?

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

Well, first of all, thank you for that question, because I think December and January results create a really interesting story of what's really going on in the fixed income markets and why it's extremely difficult to measure trends in electronic trading on MarketAxess on a monthly basis. Because you're absolutely right, we set new records in estimated market share in high-grade, high-yield and EM in the month of December. But obviously, it's a month where market volumes are significantly lighter. And the distinguishing features there as December, as you would expect given the holiday environment, is typically one of the lightest months for new issue activity, and it is also a month where investors have a lot of year-end portfolio rebalancing to conduct and tax trading, so there's more secondary activity leading into year-end around those rebalancings. And I -- when new issues are very high, which they are typically in January and they have been again this year, you'd see the focus go to the underwriters. Those new issue bonds trade very actively in the first week or 2. Market protocol currently is that those new issue trades generally get done through the underwriters, and the block trading percentage of trades goes up. So if you look at the last 2 months in December, you will see that the block trading percentage of TRACE was at the low end of the range, around 40%. If you fast forward to January, you will see it's up around 46% or 47%. That is reflective of the difference in the new issue calendar and all of the activity in trading those new issues in block size with the underwriters for the first week or 2. Now if you ask us, which do we prefer? Clearly, we like January better than we do December, even though our share numbers are lower, because market activity is much higher, which is driving record trading volumes for the company. So what we do know is if you step back and you look at quarters or years, it is clear to see that there is a secular trend going on for greater electronic trading and global credit. And I think that we are highly optimistic that, that trend will continue. But it's impossible to measure those trends month-to-month. And I can promise you that the fact that our January share is lower than December has nothing to do with client behavior changing on how they feel about MarketAxess.

It has all to do with what's in TRACE. And that's what makes it really, really difficult to measure market share changes month-to-month, and we all have to step back and look at them on a longer-term basis.

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

Got it. Very, very helpful. And just one other last quick thing on, I guess, market share. But from what I understood you saying earlier to my first question is that the way you'd experience the benefits -- or one way you experience the benefits of MiFID II would be through European clients trading EM -- in the EM markets, and it's sort of implied that's what you're seeing in January. Do I have that picture right? And is there any way you can sort of ballpark quantify that? Because, again, I think people are excited about the opportunity that seems like it's occurring in Europe with this regulatory change.

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

Yes, yes. And so, as you know, our European business, you'll see an active contribution across products. And I think it's a mistake to view euros in isolation because our business is diversified with EM, U.S. credit and euros. And we are seeing that behavioral change in the first month of January. It's hard to know exactly what's MiFID II and what part is because the market environment is a bit better starting the year than it had been in the fourth quarter and during 2017. But when we look in January year-over-year, our European client activity across products is up about 35%. So we are encouraged by the start to the year with European client activity and the fact that it does look like the regulatory changes are causing a behavioral shift in electronic trading activity.

Operator

And our next question comes from Chris Allen with Rosenblatt.

Christopher John Allen - *Rosenblatt Securities Inc., Research Division - Senior Research Analyst*

Just had a quick one on the info services line, and I apologize if I missed this. (inaudible) was up 20% due to new recurring revenue contracts. I wonder if you can give us any color just in terms of the type of client purchasing those contracts. And what does the pipeline look for that going forward?

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

Yes. So Chris, we -- you saw that we ended up breaking out the info services line. And historically, that info services business is -- business has been growing at about 10% per year. And within that category, it's our BondTicker data service. We have volume and pricing reports. We have our Axess All product. There's reference data. So there's a variety of products in that line. The past 2 years now, we've had new recurring data contracts, $4 million or higher each year. So we do expect growth going forward. It's a combination of broker-dealers, investment managers. It's a pretty broad-based client group there.

Operator

Thank you, and I am not showing any further questions at this time. I would now like to turn the call back over to Rick McVey for any further remarks.

Richard Mitchell McVey - *MarketAxess Holdings Inc. - Chairman & CEO*

Thank you for joining us this morning, and we look forward to catching up with all of you next quarter.

Operator

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