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MKTX - Q3 2014 MarketAxess Holdings Inc Earnings Call

EVENT DATE/TIME: OCTOBER 22, 2014 / 2:00PM GMT

THOMSON REUTERS

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by.

(Operator Instructions)

As a reminder this conference is being recorded, October 22, 2014. I would now like to turn the call over to Dave Cresci, Investor Relations Manager at MarketAxess. Please go ahead, sir.

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

Good morning, and welcome to the MarketAxess third-quarter 2014 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.

Some of these 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, 2013.

I would also direct you to read the forward-looking disclaimer statement 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.

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

Good morning and thank you for joining us to discuss our third-quarter 2014 results. This morning we reported solid third-quarter financial results with revenues of $64.2 million, up 5.1% from the previous year. Expenses for the quarter were up 3.5% to $36 million and pre-tax income was up 7.1% to $28.3 million compared to a year-ago.

Diluted earnings per share from continuing operations were $0.46 for the quarter up from $.43 a year-ago on an as-adjusted basis. Our adjusted estimated share of US high-grade TRACE in Q3 was 14.6% up from 14% in Q2. Market conditions in the third quarter remained benign and were similar to prior quarters.

Despite these conditions, product diversification continues to grow with a record quarter in other credit trading volumes. Volumes from European clients were up 59% during the quarter.

Open Trading adoption rates continued to improve with increases in both completed trades and notional volume traded. Based on our strong cash flow and third-quarter results our Board has approved a $0.16 regular quarterly dividend.

Slide 4 provides an update on market conditions. Third-quarter combined US high grade and high-yield TRACE volumes increased moderately by 5% compared to a year-ago. Credit spreads and yields remained low and credit spread volatility was modest during the quarter.

Investor demand for corporate bonds was primarily focused on the active new issue calendar during the quarter. Year-to-date US high grade new issuance totaled $758 billion, up 5% from last year's robust level. Taxable bond funds experienced monthly net inflows throughout the first three quarters of 2014.

The market environment began to shift at the end of September resulting in our highest volume trading day ever with $6.5 billion in bond volume on month end. So far in October we have seen increased volatility, bond fund outflows and a much lighter new issue calendar.

With greater focus on secondary trading, average daily TRACE high-grade and high-yield volume in October is approximately 10% higher than last October. While the fourth quarter tends to be seasonally slow due to holiday periods the first few weeks represent a meaningful pickup in secondary activity.

Slide 5 provides an update on our key investment areas. We see significant progress in the adoption of our Open Trading protocols by both investor clients and dealers. Since the beginning of 2014 over 25,000 Open Trading transactions have been completed on MarketAxess including almost 10,000 trades in the third quarter alone.

The number of firms completing open trades continues to grow representing an important step toward the development of a valuable new source of liquidity for secondary credit markets. We believe that one of the distinguishing factors in our Open Trading success is the inclusion of a large base of dealers, investment managers and alternative market participants in the same trading pool.

We are bringing a diverse set of clients into Open Trading to create new trading connections and improve market liquidity. In the alternative client category we see growing activity from hedge funds and ETF market participants.

During the quarter we saw continued improvement in our European business. Trading volumes from European clients increased 59% during the third quarter compared to a year ago.

We are focused on expanding our liquidity pool in Europe through a combination of adding market-making dealers and advancing new trading protocols. Our European infrastructure is now in place and we expect to see continued expansion in operating margins. In CDS, we saw an uptick in our CDS SEF volumes during Q3 even though short-term revenue opportunities remain modest.

Now I would like to hand the call over to Tony for additional detail on our volumes and financial results.

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Thank you, Rick. Please turn to slide 6 for a summary of our trading volume across product categories.

Our overall global trading volumes were $182 billion for the third quarter, up 4% year-over-year. US high-grade volumes were $110 billion for the quarter down 4% year-over-year on a combination of a 2% decline in estimated high-grade TRACE volume and slightly lower market share.

Volumes in the other credit category were up 33% compared to the third quarter of 2013 led by record quarterly high-yield volume and an 80% increase in European credit volume. Our liquid products trading volumes were down 11% on softer US agency trading.

On the second-quarter earnings call we provided some color on FINRA TRAE reporting of 144A Securities and duplicate reporting of affiliate back-to-back trades. We realize that the noise around TRACE reported volumes creates some challenges in estimating market share.

FINRA recently determined to add a new reporting field to capture affiliate back-to-back trades but we understand that the reporting will not be in production until sometime in the first half of 2015. We will continue to report estimated TRACE volume and market share on a basis consistent with the prior years and have posted a file on our website displaying TRACE volumes with and without 144A Securities and adjusted for the estimated duplicate trade reporting.

Slide 7 displays our quarterly earnings performance. Revenues of $64.2 million were up 5% from a year-ago mainly on record commission revenue. The sequential drop in information and post-trade service revenue was largely due to a decline in market volumes reported through Trax.

A tapering of revenue on a professional service engagement caused a sequential decline in technology products and services revenue. Total expenses were $36 million, up 3.5% from the third quarter of 2013. The operating margin percentage and compensation and benefits ratio were consistent with the year-ago levels.

The effective tax rate was 38% for the third quarter and 37.5% for September year-to-date. We continue to track at the lower end of the 2014 effective tax rate guidance range of 37% to 40%.

Our diluted EPS was $0.46 on a diluted share count of 37.8 million shares. The sequential decline in our diluted share count was principally due to share repurchases.

On slide 8 we have laid out our commission revenue trading volumes and fees per million. Total variable transaction fees were up 5% year-over-year as the growth in other credit trading volumes offset high-grade decompression and lower estimated market volumes. US high-grade fees per million of $177 was similar to the second quarter.

The year-over-year decline in high-grade fees per million was due to a combination of lower duration, a shift to larger trade sizes and dealer fee plan migrations. The average year's maturity of bonds traded was 7.8 years down from 8.7 years in the third quarter of 2013 but within the post-crisis range experienced on the platform. Fees per million in the other credit category were $316, up from $308 in the second quarter and nearly identical to the year-ago level.

The sequential increase in fee capture was due to a makeshift within this category with the heavier weighting to high-yield volume. US high-grade distribution fees were up $700,000 compared to the second quarter of 2014 due principally to one dealer migrating to the major US high-grade plan.

During 2014 several Eurobond dealers transitioned to fee plans that incorporate a higher level of variable fees and lower level of monthly distribution fees resulting in a decline in the other credit category distribution fees. We expect fourth-quarter total distribution fees be similar to the third-quarter level.

Slide 9 provides you with the expense detail. Third-quarter 2014 expenses of $36 million were up 3.5% year-over-year and less than 1% sequentially.

All of the expense categories were in line with the second-quarter figures. In September year-to-date expenses were up 12% over 2013. However, when we normalized 2013 expenses for the Xtrakter acquisition, the year-to-date expenses were up closer to our long-term expense growth rate of around 8%.

The year-over-year increase in employee compensation and benefits was almost entirely attributable to higher headcount. Employee headcount was 305 at September month end up from 295 one year ago. Absent attrition we are expecting some headcount extension through yearend to support our core initiatives.

The year-over-year increase in depreciation and amortization reflects a significant investment in product enhancements and technology over the past several years. We expect capital expenditures for full-year 2014 will be within the guidance range of $15 million to $17 million.

Professional and consulting fees have trended down versus prior-year levels for the past three quarters. Lower technology consulting spend and legal fees were the driver behind the year-over-year decline. We expect full-year 2014 operating expenses will be within the guidance range of $144 million to $148 million.

On slide 10 we provide balance sheet information. Cash and securities available for sale as of September 30 were $212 million compared to $200 million at yearend 2013. During the third quarter we repurchased 211,000 shares at a cost of $11.7 million under the upside $100 million share buyback program.

As of September 30, approximately $75 million was available for future repurchases under the program. There was no change in our capital structure during the third quarter, we have no bank debt outstanding and we didn't borrow against our revolving credit facility. Now let me turn to call back to Rick for some closing comments.

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

Thanks, Tony. Our third-quarter results reflect continued momentum and a stronger competitive position across our core credit products with record volumes in our other credit category. Our Open Trading adoption rates are accelerating and represent growing interest in our all-to-all trading solutions.

European results are improving and incoming European regulations will create new opportunities for trading and market data solutions. Now I would be happy to open the line for your questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Mike Adams, Sandler O'Neill.

Mike Adams - *Sandler O'Neill & Partners - Analyst*

Good morning, gentlemen. So let me kick off with a couple of questions specific to the quarter here.

Tony, to follow up on some of your commentary on the non-commission businesses, the post-trade services, I think you said that there was just lower trade reporting at Xtrakter that accounted for the weakness this quarter. And I am curious is that just lower overall industry volume, or are you seeing certain market participants maybe shifting the reporting to other venues? What is driving that?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Mike, so the sequential decline almost all of that was Trax volume-related business. And when you look at that line item, around 55% of that line item is data related, so it is both US and European data products, and 45% of it is Trax related.

That 45% Trax related really is volume dependent. And when we look at the sequential period, there was a slowdown in overall market volumes that does end up translating into reported volumes and trade matching on our platform as well.

And we look over that period, the data piece of that line item was a slight uptick over the second quarter. But that decline in Trax volumes, decline in market volumes, was what attributed to the decline quarter to quarter.

Mike Adams - *Sandler O'Neill & Partners - Analyst*

Got it. And then, Tony, another one for you.

I noticed the headcount slipped as of September 30, I think it was down like 4% or so and a little surprising just because you had talked about adding headcount to support some growth initiatives. So where did those reductions occur and I guess was it just natural attrition, or was there some minor restructuring and do you still get to 325 to 330 by yearend?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Right, right. There was a decline end of Q2, end of Q3. And quite frankly I probably should've done a better job explaining the increase at the end of the second quarter.

But when we look at the decline in the third quarter, there were 9 or 10 interns that we had that rolled off during the quarter. There also some terminations during the quarter. And it was a combination of both management-initiated terminations and some voluntary terminations.

The combination of the interns rolling off and the terminations, that was about 20 altogether and then we did have hires. So we did have a half a dozen or so new hires during the period.

The second part of the question on what does that mean for yearend and what are we projecting right now, we still have 15 or 16 or 17 open positions. We are actively engaged in recruiting and trying to get those positions filled and onboarded. Some of those positions are already filled and committed to.

At this stage if we were targeting 325, which was our original budget, it is going to be tough to get to that 325 number. So we will probably fall a little bit short of that goal. And it's not for a lack of trying, we just wanted to make sure we get the right people in there with the right ability to fill the positions, but we will probably fall a little bit short of that yearend target.

Mike Adams - *Sandler O'Neill & Partners - Analyst*

Got it. Thanks, Tony.

And then Rick, shifting gears talking about some of the market conditions, some of the recent weakness in the credit markets, I think it has brought liquidity concerns in the corporate bond market to the forefront again and just curious what the immediate impact on business is? Do you see elevated inbound call volume or are clients more engaged on the platform testing Open Trading protocols? Any color would be appreciated.

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

All of the above. I think the most immediate change has been the increase in TRACE volume. And I personally think that volatility has the potential to bring higher TRACE activity because the base of corporate debt is up about 60% since 2008 and we are seeing that early on in the fourth quarter, most importantly in high-yield where volatility has been the greatest and spread levels now have moved wider and are almost back to where we were in the taper tantrum in the second quarter of 2013.

If you look at high-yield TRACE so far in October it is up about 30% versus last October's average daily volume. So the secondary market activity is up.

We continue to believe that the adoption rates for Open Trading will accelerate with more volatility and more focus on secondary trading. In the early days that seems to be the case. So this is another environment where we are getting greater volatility and greater interest in electronic trading.

Mike Adams - *Sandler O'Neill & Partners - Analyst*

Got it. And then October, I don't think you commented on market share. Do you mind giving us an update there in how things have been trending?

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

Yes, similar to last quarter we still have eight trading days left in October. So hesitate to give guidance on where the full month will come out with so many important trading days still in front of us. But based on the trends that we are seeing so far this month we would expect a modest increase in market share versus the third-quarter average.

Mike Adams - *Sandler O'Neill & Partners - Analyst*

Got it. Thank you, guys. Appreciate it.

Operator

Niamh Alexander, KBW.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Hi, good morning and think for taking my questions. If I could just go back to Europe for a bit, Rick. You have done the Xtrakter deal last year, you've had quite a few quarters of integration.

I know we get some seasonality over there, you get a lot of seasonality over there typically. But help me think about where you are versus where you were hoping to be and do you still feel as good about the market data revenue opportunities, the potential to integrate there, maybe to build into the commissions on that? And has the timing shifted a little bit there at all, or where do we go from here?

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

No change. I think that we view the European business holistically and feel good about the expanded product capabilities we have with trading data and post-trade services. We, as you know, are closing in on the completion of a major technology project to rewrite the infrastructure at Trax, feel good about that.

And we are getting great encouragement in the early days of some of the new data products that are just rolling out. So this is all a matter of timing but there is a lack of quality turnover volume, liquidity information in Europe and even pricing information.

And we are working with the industry there on delivering more data to fill that gap. And we remain optimistic that this will be a growth area for us into the end of the year and into next year.

And I do think that some of the progress that we've made on the trading side is attributable to the broader product offering that we now have in Europe. So really encouraged by the growth in number of clients trading and the significant pickup in year-over-year volume that we are seeing in Europe.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Okay, fair enough. So I guess the 59% growth from the European clients you are seeing that come through in the existing US product as well as high-yield on EM, maybe more so than Eurobond. But for us to think about the market data side of it as well, which is where you are very strong typically, is that more of a maybe second-half 2015 that we should start to build in some additional revenue for that particular part of it?

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

Yes, I think throughout 2015 we are optimistic we will see growth in the data revenue line. Tony made some comments specific to Eurobond, so a significant part of our growth during the quarter from European clients was in Eurobonds within the region. There is a lot of emerging market trading that takes place with European clients as well and that has been an important component of our growth.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Okay, fair enough. That's helpful. Thanks, Rick.

And then I imagine this time of the year a lot of companies and yours included are probably going through your budgeting for next year. Can you help me think about -- right now you've got three big initiatives and you've continued to invest in those initiatives, Europe, the Open Trading and then the SEF. Are those three still the big priority for the next year ahead and should we hope is the kind of spend rate likely to be the same in the investment?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Niamh, you are right we have had those three big initiatives for a couple of years now and around Europe and the Trax business, around Open Trading and around CDS. Sitting here today it is still three big initiatives although I'll tell you on the CDS side, this is absent having a rule set from the SEC, on the CDS side we are largely through the technology build.

The big legal spent around responding to the CFTC rules are largely behind us. And that spend has come down for CDS, so where the run rate the last couple of years had been closer to $6 million, we look at the current run rate and it is probably not quite half that number but it is around the $4 million level. And again absent a rule set from the SEC and having to respond to that, that's probably a better run rate around CDS.

On the Europe side, and Rick has made some comments on Europe, we are largely through a technology rebuild on the Trax side. We are in the midst of some data center moves out of some Euroclear data centers into our existing data centers.

We think we have the infrastructure in place, and I am talking about people and technology. And that is not to say we will not continue to invest but we are at this point in Europe it is all about leverage and it's all about driving that top-line revenue number forward. It's still obviously a very big focus but those big chunky spends will largely be behind us.

And I think anything around Open Trading it is still -- we are still testing protocols. We are still launching new functionality. There is still a big investment there, and it's a big part of our focus.

It's a little early to talk about guidance right now for next year but listen, you have seen what our long-term expense rate looks like. We've been in that 6% or 8% range. You have seen what CapEx looks like in a more normalized environment.

We've responded to that in the past. It is probably the $12 million to $15 million range in a normal run rate, most of that product enhancements. And the effective tax rate, while there is some one-time items in there, it has been very consistent the past three years.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

I think that's very helpful. Thank you, Tony. I appreciate it, where you are pointing us to there.

And then if I could, maybe back to Rick on the industry environment. You've been very helpful in talking about October so far and the heightened volatility. But there is kind of a bigger theme developing in terms of there's a lot of concern about a lack of liquidity especially after a lot of bonds moving one way.

And we have seen one big industry participants on the buy side kind of publish research, the regulators are paying attention. Do you think we are closer to getting some change like maybe toward standardized products and if that is the situation, is MarketAxess in a good position to have a central limit order book to kind of be one of the venues at the front of the line there?

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

Yes, with respect to standardize product it makes all the sense in the world to us to have more standardization and fewer bond issues in the crowded space but that is going to be a long-term change. In the early days there is no sign that issuers have changed their issuance patterns yet, so we still have a highly fragmented secondary corporate bond market. But greater standardization and fewer issues we think would be one of the solutions to increase overall market turnover and liquidity.

And I think what we are seeing now is that the adoption rates are picking up. We are seeing nice sequential growth in Open Trading and you see 20% to 30% increases and clients that are getting involved and trading volume. I think where you will see an acceleration of that is when clients need it the most, which is when the focus is on the secondary trading market.

And in the early part of the fourth quarter where we've had two or three weeks of that. But the market hasn't been tested because the investment industry has had inflows over the last three or four years and most of that money has gone to work in the new issue calendar. And I think if you look at high-yield now, this is the beginning of the test on the secondary market.

And it is our belief that we will see the story of necessity being the mother of invention coming through where clients realize that given a much larger credit market and smaller balance sheet capacity within the dealer community they do need to change their behavior in order to facilitate efficient secondary trading. And that is the reason for the massive investment that we are making in protocols.

And do we get to a central limit order book maybe for a small slice of the corporate bond market? It is hard, and given the amount of turnover today, to see a broad base of the activity.

But remember we have a menu of protocols already available for investors and dealers in Open Trading and arguably the protocols are out ahead of the shift that we have seen so far in investor behavior. We have much more available than people are using today including a central limit order book, which is live today for single name CDS trading.

So we are continuing to invest and enhance those protocols. But there is a lot of work going on with respect to changing investor behavior and getting more people participating in using the Open Trading protocols that are available.

Niamh Alexander - *Keefe, Bruyette & Woods - Analyst*

Okay. Fair enough. Thanks much.

Operator

Patrick O'Shaughnessy, Raymond James.

Patrick O'Shaughnessy - *Raymond James & Assocs. - Analyst*

Good morning, guys. Want to follow up on the information services information post-trade services line. So obviously a little bit of seasonality there in the third quarter with lower volumes.

I guess I was maybe expecting that some of your growth initiatives that you have in terms of broadening the distribution on that data and selling more data products would offset some of that seasonality. So as we were thinking about that line going forward, what sort of growth do you think is ahead of you in terms of broadening the distribution on the Trax data products?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Patrick, Rick responded before to one of the earlier questions around that. It is -- we are still very bullish on the data outlook. We are in the midst of rolling out new data products.

The sales cycle does take a little bit longer here and it is something in the fourth quarter and beyond. In terms of sizing it up, a lot of what we are doing is also around promoting more flow onto our platform. In some cases the data products will be just to do that -- will be to put more eyeballs and draw more flow onto our platform.

It is difficult to circle the number right now and tell you what we are expecting in terms of growth out of that but it is one of our focus areas. It is one of the areas that we expect to improve the margin fixture of our European franchise overall. It is one of those areas we are expecting revenue growth from.

Patrick O'Shaughnessy - *Raymond James & Assocs. - Analyst*

Got you. And then I guess to push a little bit further on Europe, I know that you guys have been trying to get the buy side to push beyond that six dealer cap for some of the smaller I think sub $500,000 trades or EUR500,000. Can you just talk about how that is going and what the opportunity or the potential is for you to try to push the buy side to going beyond that six dealer cap for all of their trades in Europe?

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

Yes, we have mentioned in the past we have provided more investor choice in terms of how they use the system. It is always up to them to determine how they would like to use the protocols and how broadly they would like to send their electronic orders. But what we've seen in the odd lots in Europe is that they have embraced more dealer choice and more competition in those kind of orders.

And we also we get mixed reviews from dealers but some of them quite like it because dealers today don't necessarily want to take on more inventory in odd lots that come with higher capital requirements than they used to. So investors are growing broadly. They are having good success with that.

It is attracting new dealers to our European system. We believe that over time Europe is going to need an open architecture at least as much as the US based on everything we can see on transaction costs in liquidity and capital requirements for the key participants there. But it is likely to be a gradual evolutionary process to get there.

Patrick O'Shaughnessy - *Raymond James & Assocs. - Analyst*

Got you. Makes sense. Thanks.

I guess lastly from me, so certainly we keep hearing about all these different new corporate bond, electronic corporate bond trading venues that are coming up. Are there any trading protocols that you have seen, any of these new venues proposed that you say hey, this is interesting, this is something that we think we should pursue, or by and large do you guys have kind of the complete set of protocols already in place?

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

Well, we don't have any lock on good ideas but we spend a lot of time and energy every day thinking about this and talking to every major client and dealer about it. And as a result of all that work with clients everything that we know of that could add value to improve secondary liquidity we have either built and it is available now or it will be available soon.

So it won't be a gap in protocols here. We are spending a lot of time with our clients and we are very focused on this topic because we think the industry needs it. And there is no shortage here of technology investment going into offer those protocols.

And as I said right now, the only thing keeping us from having a much stronger Open Trading offering is investor behavior. It is not shortage of technology or any gaps in protocols.

And we have a huge start. We have approximately 150 or so institutional investors that are active on this system and nearly 100 dealers connected and integrated into the trading platform.

We have a lot of content with the base of orders that are already in the system. And we think we have a head start and are making bigger investments than anyone in the industry in enhancing and adding protocols. So there is a big start there and what we are really working on with investors is altering their trading process so that they can more actively participate and utilize these new tools in order to take control of their own destiny and be better prepared for the future.

Patrick O'Shaughnessy - *Raymond James & Assocs. - Analyst*

Got it. Thanks for the commentary.

Operator

Jillian Miller, BMO Capital Markets.

Jillian Miller - *BMO Capital Markets - Analyst*

Hey, guys. Thanks. So I just wanted to go back to the Open Trading and your trade count has been growing really nicely for the past couple of quarters.

I was wondering if you could give us an idea for like what percentage of your high-grade value trade is, that trade count represents? And then maybe also if you could just give us an idea for what percentage of your Open Trading trade count is actually being done between two clients versus like a client-to-dealer or a dealer-to-dealer that is run through the Open Trade protocol?

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

Two good questions, Jillian. First, it has grown to about 4% or so of our trade count and trade volume. So nice increase and I think when that approaches 10% or more it will start to become a more visible and relevant source of liquidity for both dealers and investors on the platform.

And we did provide in the pie chart in the prepared remarks some guidance on where prices are coming from when orders go into market list in our Open Trading protocols. And roughly speaking it is kind of interesting because most people jump to the conclusion that it is all client-to-client. That is just not the case and the interesting thing is how we are bringing many different and some new market participants into that pool of orders.

So about 40% of the prices back come from investment managers. About 40% comes from a community of alternative market makers. And I highlighted in my comments two segments, ETF market makers and hedge funds, and about 20% come from dealers that in most cases did not see the order on a disclosed basis and are responding instead through the Open Trading protocols.

I think this is really important. This is not just client-to-client. We have dealers, investors, ETF market makers, hedge funds, all in that same pool and ultimately we think that this is the right path to the solution for the new model and secondary trading.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay, thanks. That's helpful.

And I think Patrick's question was kind of getting at this, but with Tradeweb now having I guess at least soft launched their platform, just wanted to get kind of an update from you on what you are hearing from your clients. What if any competitive advantages that platform might have or if basically there's very little information out there on it. So I'm just wondering if you have heard anything that we haven't?

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

Yes, we talked extensively with all of you in the last call because it was right in the midst of what we were all hearing was the Tradeweb corporate bond launch. Early days for them and as I mentioned in the last call, this is not the first launch in corporate bonds. We believe it is the fourth.

So they have been down this road before but what we are hearing is that there's not much change in the outcome. Again, we respect them as a competitor. We expect them to invest in credit and all the other areas that they have been recently.

And it is early days but in the first three months of trading we have not heard much about trading activity from dealers or investors on the Tradeweb platform. And also I would point you to one other external data point on competitive position and market share that came out during the quarter, which was the Greenwich Associates e-trading survey for credit (technical difficulty) on the over 1,000 institutional investor interviews that they conducted during their spring survey period.

And I think all of you started asking a lot more about competition a little over a year ago. And we probably all have a hard time coming up with all the names that have been in and out of the market already over the last five quarters. But what I found interesting about Greenwich is over the last year they actually show that MarketAxess increased our percentage of the e-share.

So they show us going from strength to strength based on what they heard from 1,000 investors in their survey. As I mentioned that summary came out from Greenwich about a month ago.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay. That's really helpful, thank you. And then just one more question for me.

You guys have been retaining some excess capital on the balance sheet for around the past year or so because I think you have been acting as a middleman for the Open Trading. And I think last time we spoke to said you were still trying to determine whether longer term you would outsource that role or whether you would continue to perform it in-house. So just wanted to get an update on where you are in that decision process and how it is kind of influencing your decisions in capital deployment.

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

Happy to respond to that. We are acting as a riskless principal with electronically matched trades.

So based on what we are doing today we are scratching the surface of the available capital that we currently have. So we really don't see a scenario anytime soon where we would need to think differently about capital management because of what we are clearing in Open Trading.

And it's my belief, Jillian, that as this grows our percentage of clearing will go down. And the reason for that is we already see positive signs from major dealers that they are embracing Open Trading in a different way than they did six months ago.

We have been working very closely with major dealers individually and as groups on ways for them to stay involved in Open Trading, to support it, to utilize that liquidity pool for their own purposes and needs and we are making great progress there. And I think the next step of that is that they will offer a similar clearing service to their large investor clients, which we actively embrace and when they do that I believe that our percentage of clearing will go down. So I really don't think it is relevant currently to think too much about any capital changes on the back of Open Trading clearing.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay. Got it, thank you.

Operator

Ashley Serrao, Credit Suisse.

Ashley Serrao - *Credit Suisse - Analyst*

Good morning, guys. Rick, can you talk about the sense of urgency that the regulators have in reforming the market? It feels like the rhetoric is picking up but from discussions with them do you feel that they are working to a timeline of sorts?

I ask because a lot of ideas put forth by BlackRock are really not new. They have been talked about for well over a year. What is stopping the regulators from listening to such large influential participants?

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

I think they are listening. We have had a series of meetings with the SEC recently and can confirm that their attention and focus on the credit markets has increased. And I do think they are rightly concerned about the market structure issues and well aware that the market has gotten a lot larger and the regulatory changes have caused a significant shift in market-making capacity.

It's a big topic and the regulators don't move forward with changes in a short period of time. So I think it is early stages but I can categorically tell you that they are concerned about the issue and they are talking to influential participants in the market to try to get a sense of what they might do in order to be a constructive part of the solution and the new market structure.

Ashley Serrao - *Credit Suisse - Analyst*

Got it. Thanks for the color there. And just a follow-up question on your thoughts on marketshare so far this quarter.

I was surprised that you said that you expected to be modestly higher just given that issuance is meaningful down. We are hearing there are liquidity challenges in the market.

Is there something missing in that picture? Why aren't you more meaningfully higher?

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

I think your wordsmithing a little bit, Ashley. We've got 8 trading days left and on the 10th day from now you will have our results. And all I can tell you is we are seeing the same theme that when volatility picks up in the credit markets, TRACE volumes go up and electronic share go up.

So we feel really good about it and we have never had in my opinion quite as much momentum across every product area as we have now where product diversification is really improving. And it's rare to see the arrows all pointing in the same direction when you look at European activity, high-yield, EM, the high-grade market starting to shift, TRACE volumes moving up.

So again this is only a two- or three-week period and it's hard to know whether it will be sustained in the short term. But I think we would all bet on more volatility in the future and we have seen over the last three or four years. And that looks to us like it is very healthy for our business.

Ashley Serrao - *Credit Suisse - Analyst*

Thanks for the color there. And I guess final one for Tony, no real change to expense guidance this quarter, but can you walk us through the puts and takes as we head into 4Q, what gets us to the middle or top end of your expense guidance?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

You know, Ashley, it's probably -- in fairness it's probably going to be tough to get to that middle or high end of the expense guidance. You look at it today and a substantial base of the expenses going into the fourth quarter, you can call them fixed at this point in time.

And quite frankly the biggest variable is what Rick's been talking about. The biggest variable we have are market conditions. It is the impact on what that means to our business, to our commission revenue and where that flows through is on our incentive compensation accruals and that is really the biggest variable at this point in time.

And to a lesser extent some of the comments I made around headcount, some of the movement there could influence the expense run rate a little bit. But again it is mostly market conditions, commission revenue and how that flows through to incentive comp.

But I do think given where we are through the first line months looking at where we were in the third quarter, getting to the middle or upper end I'm not sure that we have that in the equation right now. Although, listen, if we have what's occurred in the first couple of weeks here, and again we are not suggesting that is the case for the remainder of the quarter, but the first couple of weeks gives us some optimism on market conditions.

Ashley Serrao - *Credit Suisse - Analyst*

All right. Thanks for taking my questions, guys.

Operator

Michael Wong, Morningstar.

Michael Wong - *Morningstar - Analyst*

So talk about decreased liquidity in the capital markets due to higher banking regulations has resurfaced lately. Overall do you see less liquidity in the overall market or would you say the liquidity has migrated from large banks to regional broker-dealers and buy side firms?

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

Based on FINRA numbers and others, you don't really see overall that there is a change in dealer concentration. Still a substantial amount of the share in the hands of the top 10 dealers. When we think about market liquidity, we look at overall credit market turnover in transaction costs.

And turnover is down substantially over the last three years. The base of outstanding debt is much larger and TRACE volumes have been broadly flat.

And I think that is partly because market conditions have been so benign overall. And partly it is because investors have a harder time moving large trades through the market than they used to and transaction costs are higher than they used to be pre-crisis. So I believe that this will become even more relevant when we have a sustained period of higher market volatility and investors need to move more positions.

Michael Wong - *Morningstar - Analyst*

Okay. And with long-term rates generally declining this year, have you seen a change in trading patterns that was different than you are expecting at the beginning of the year? And did that change your strategy or thoughts during the year at all?

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

Not really. I think it has extended the period in which investors have had inflows and have had money to put to work.

It has facilitated another big year in new issuance. So more of what we have seen over the last two or three years but we are investing for the long term.

We think that there is a seismic shift going on in market structure and we need to be a constructive part of that with the industry and with our dealer investor clients. And we are ramping up the investment budget to provide those solutions.

Michael Wong - *Morningstar - Analyst*

Okay. Thank you.

Operator

(Operator Instructions) Jimmy Brennan, Barometer Capital.

Jimmy Brennan - *Barometer Capital Management - Analyst*

Good morning, thank you for taking my call. I'd like you to talk just briefly if you would about share buybacks and if that is a great use of your capital at this point in time?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Jimmy, capital management it's an ongoing topic with our Board and in terms of the repurchase plan, we like having the program in place. We had adopted that plan earlier in 2014 mainly to offset the impact of equity grants. We did expand that plan in the second quarter and we have been sort of consistent with how we have acted in the past.

We have tended to be more aggressive around repurchases when we think we are trading at a significant discount to fair value. And the new grid that we have set up is set up to perform in that manner, where it is more aggressive at lower prices and it is less aggressive at higher prices.

The Board has been thoughtful around capital management and repurchases and dividends overall. We've made use of both repurchase and dividends in the past. And considering things like cash flow, our cash balance, our share price, future projections, it is an ongoing topic and again we like having the existing program in place right now.

Jimmy Brennan - *Barometer Capital Management - Analyst*

Thank you very much. Appreciate it.

Operator

Jillian Miller, BMO Capital Markets.

Jillian Miller - *BMO Capital Markets - Analyst*

I just have two quick things. I think, Tony, you might have said this in your prepared remarks but I missed it. So did you say what the CapEx was for the quarter?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

The year-to-date CapEx is a shade over $11 million.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay.

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

I don't have the quarterly number front of me but a shade over $11 million. Our full-year guidance range is $15 million to $17 million and right now what we are projecting is we would come in at the low end of that range. So think about it as around $4 million per quarter.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay, got it. And then you mentioned something about the technology products revenue like there is some reason why it declined in the quarter and I you know you said it but I just didn't catch it.

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Yes, when you look at that line item, it is technology products and services, about 75% of that of the revenue there is project management related. It's for companies in the technology space. Yet it is not a big part of our revenue or revenue plan and it's not -- these types of projects, they are not core to our business.

It's not really an area of emphasis. We are not out promoting or soliciting engagements like that and we did have this one large engagement, which at this point is winding down. It is tapering down.

And we would expect the revenue on that one line item, the technology products and services revenue, if you were building out the model I would expect that line to decline over time. Again, it is not a big piece of what we are doing.

It is not really an area of emphasis. This particular engagement was an important one but it is tapering down right now.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay, got it. Thank you.

Operator

Mike Adams, Sandler O'Neill.

Mike Adams - *Sandler O'Neill & Partners - Analyst*

Just two housekeeping items. First, what was the percentage of high-yield EM in terms of the overall other credit volume?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

It was right around 81% or 82%. It is still sort of dominated by high-yield and EM but you look at the growth in that category, clearly year-over-year Eurobonds outpaced EM and high-yield. But it is still a larger percentage -- the bulk of it coming from EM and high-yield.

Mike Adams - *Sandler O'Neill & Partners - Analyst*

Got it. And then apologies if I missed this, but Xtrakter, what was the revenue in pre-tax contribution this quarter?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Mike, we are really not breaking out those figures anymore. I tell you that on -- and the reason why, this is really -- we are looking at this business in totality.

It is our European franchise. It is across trading post-trading data, it is an integrated business. And if you just sort of pull the statutory accounts for this legal entity what you're going to see is operating margins around 10% or 12% right now.

We do expect those margins to expand. There has not been significant revenue growth to date. If you think about that we have said in the past it was running at about $24 million, $25 million in revenue.

So you've got all the pieces there but in terms of breaking it out separately it is not really how we are necessarily looking at it. It is European franchise we have integrated business and sort of losing its singularity in that way. But the margins look like the historical margins there if we were to break it out separately.

Mike Adams - *Sandler O'Neill & Partners - Analyst*

Okay, so if I were to rephrase it, the reason I ask is because you talked about it being accretive in the back half of the year. And just given some of the commentary around the post-trade services revenue declining a bit, I was curious, was it -- did you see some accretion in that business in 3Q?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Yes, through the first nine months it has been fairly consistent. It is been running at about 10% or 12% operating margins before deal cost and that is before amortization of intangibles. You throw in the amortization it's around breakeven and we still do expect it to be accretive -- let's say mildly accretive in the second half of the year.

Mike Adams - *Sandler O'Neill & Partners - Analyst*

Okay. Thanks, Tony.

Operator

I'm showing no further questions. I will now turn the call back to Rick McVey for closing remarks.

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

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

Operator

Thank you, ladies and gentlemen. That does conclude today's conference. You may all disconnect and everyone have a great day.