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MKTX - Q1 2013 MarketAxess Holdings Inc. Earnings Conference Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. At this time, all participants are in a listen-only mode. We will conduct a question-and-answer session. (Operator Instructions). As a reminder, this conference is being recorded April 24, 2013 and now, I would like to turn the call over to Dave Cresci, Investor Relations Manager at MarketAxess. Go ahead, please, sir.

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

Good morning and welcome to the MarketAxess first-quarter 2013 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 belief regarding future events that, by their nature, are uncertain. The Company's actual results and financial condition may differ materially from what is indicated in those forward-looking statements. For a discussion of some of the risks and factors that could affect the Company's future results, please see the description of risk factors in our Annual Report on Form 10-K for the year ended December 31, 2012.

I would also direct you to read the forward-looking disclaimers in our quarterly earnings release, which was issued earlier this morning and is now unavailable 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 for our first-quarter 2013 earnings call. This morning, we reported our first-quarter financial results with another solid quarter in which we achieved record revenues, pretax income and EBITDA. Revenues for the quarter were $55.6 million, up 9.5% from $50.7 million a year ago. The main driver of revenue growth was an increase in variable transaction fees, which were up 12.5% to a record $32.5 million from $28.8 million in the prior year. Pretax income was up 6.9% to $24.3 million.

Our Board has approved a regular quarterly dividend of $0.13. The annualized dividend payout ratio is approximately 30% of trailing 12-month EPS and free cash flow. Our estimated High Grade marketshare was 12.3%, up from 11.4% last year. In addition, we continue to see growth in our Emerging Market and products with combined volumes up 36% year-over-year, also a record.

Last night, we announced a strategic alliance with BlackRock to create a unified electronic trading solution. Our goal is to reduce fragmentation and improve liquidity in the credit markets by providing a wide range of electronic trading solutions to a vast network of dealer and investor market participants.

In Europe, we finalized our acquisition of Xtrakter during the quarter and have begun the process of integrating the two firms. We continue to see ample opportunities in data, trading and post-trade services with the combined capabilities of MarketAxess and Xtrakter.

Slide 4 provides an update on market conditions. Q1 TRACE volume showed their normal seasonal pattern with market volumes very similar to one year ago and up about 20% from Q4 2012. We believe that the growing base of corporate debt outstanding will create more secondary trading opportunities in the future.

Flows into taxable bond funds remain strong at $55 billion during the first quarter. Primary dealer holdings of corporate debt for market-making were up slightly during the quarter, but remain more than 75% below peak levels, reflecting balance sheet constraints.

Slide 5 provides an update on our open trading initiatives. As mentioned previously, we have announced a strategic alliance with BlackRock to create a consolidated electronic marketplace for credit trading. The alliance will facilitate seamless trade flow between users of BlackRock's Aladdin Enterprise Investment System and the MarketAxess trading community. BlackRock will take an active role in promoting and marketing the MarketAxess open trading solutions in order to improve liquidity in credit markets.

We made good progress with our open trading initiatives in Q1. 59% of all High Grade inquiries on the system were placed into the Market List's open order book. While still a small percentage of overall trades, completed client-to-client trades increased 62% from the fourth quarter.

To complement these developments in our corporate bond platform, we also launched a central limit order book for trading of single name credit default swaps with a major swap dealer yesterday. This capability is in addition to the multi-dealer RFQ and streaming protocols we already have live for CDS on the system. Our quarterly CDS volumes have been growing at a sequential rate of 64% since the first quarter of 2012. In spite of ongoing delays in the finalization of SEF rules, we are moving forward with our CDS electronic trading capabilities.

Slide 6 highlights estimated market volumes and revenue sensitivity in our core products. We believe that the electronic share of credit trading is still in early stages. While we believe we represent the vast majority of electronic trading in the US corporate bond market, we currently represent about 12.3% of the total secondary volume. Our estimated marketshare of Emerging Markets and High Yield trading is around 5%.

Market demand for new electronic trading solutions is running high and most industry analysts project a significant increase in the electronic share over the next three to five years. Variable transaction revenues are the most important driver of long-term revenue growth. As you can see in the bar chart, we continue to benefit from strong growth in total variable transaction revenues.

Transaction fee growth represents a combination of marketshare gains in High Grade, and EM and higher fee capture. Q1 average daily variable transaction fees were up 16% year-over-year and reached a new record of $540,000. Based on our current fee capture and current secondary market volumes, we estimate that a 1% marketshare gain in US High Grade drives approximately $5 million in additional annual revenue. Both our and EM products have similar revenue sensitivity for a 1% increase in marketshare. Now let me turn 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 7 for a summary of trading volume across our product categories. We have created two new volume buckets that are intended to help clarify volume trends by grouping together instruments with similar liquidity characteristics and fee capture. The other credit category now includes High Yield, Emerging Markets, Eurobonds and structured products. And the new liquid products category includes US Agencies and European government bonds. We will continue to report High Grade separately.

Our overall global trading volumes were up 2% year-over-year to a record $160.4 billion. US High Grade volumes were a record $101.2 billion for the quarter, up 3% year-over-year. TRACE volumes were down 4% from the previous year. Volumes in the other credit category were up 19% compared to the first quarter of 2012. All of this growth came from and Emerging Market volumes, which were up a combined 36% year-over-year.

Liquid product volumes were down 30% year-over-year. Over 90% of these volumes were attributable to US Agency bonds. Our Agency volume decline is consistent with a 30% drop in reported Agency volumes on TRACE. With five important trading days still remaining in April, we currently expect April High Grade and marketshare to be above the first-quarter levels.

Slide 8 displays our quarterly earnings performance. Revenues of $55.6 million were up 10% from a year ago, driven principally by a 13% increase in variable transaction fees and the inclusion of the Xtrakter results since the February 28 acquisition date. Xtrakter revenues are reflected in the information and post-trade services revenue line.

Total expenses were $31.2 million, up 12% from the first quarter of 2012. Excluding Xtrakter, operating expenses and transaction-related costs total expenses were up less than 1% year-over-year. The first-quarter 2013 income tax provision includes a benefit for certain 2012 tax credits enacted into law in January of this year amounting to approximately $400,000, or $0.01 per diluted share. Excluding this item, our effective tax rate for the first quarter was approximately 38.4%. Our diluted EPS was $0.41 on 37.7 million diluted shares.

On slide 9, we have laid out our commission revenue, trading volumes and fees per million. To facilitate the transition to the new volume reporting buckets, we have posted a file on our website summarizing quarterly commissions, volumes and fees per million under both the new and old formats for the past nine quarters. US High Grade fees per million were $191 in the first quarter, consistent with both the prior-year level and the fourth quarter.

We have experienced a decline in the years to maturity of bonds traded on our platform over the past six quarters, but fee capture continues to benefit from the low yield environment. Fees per million in the other credit category were $296 in the first quarter of 2013, up from $269 a year ago and from $291 in the fourth quarter. Higher fee capture, Emerging Market and volume accounted for the year-over-year increase and represented 82% of the other credit category volume in the first quarter compared to 72% one year ago.

Distribution fees were $14.7 million during the first quarter of 2013, down 8% from the first quarter of 2012. We currently expect that second quarter 2013 distribution fees will be consistent with the first-quarter level.

Slide 10 provides you with the expense detail. The 12% increase in total expenses from a year ago were almost entirely attributable to the Xtrakter acquisition. In the first quarter, Xtrakter operating expenses were $1.7 million and investment banking and other transaction-related costs were $1.4 million. The year-over-year increase in depreciation and amortization reflects significant capitalized software development and equipment spending in the past several years together with the amortization of the Xtrakter intangible assets. The year-over-year and sequential increase in professional and consulting fees is largely attributable to the Xtrakter transaction costs.

On slide 11, we provide balance sheet information. Cash, cash equivalents and securities available for sale as of March 31 were $143 million compared to $180 million at year-end 2012. During the first quarter, we expended approximately $37 million to acquire Xtrakter and paid out our year-end employee cash bonuses of roughly $19 million. There was no change in our capital structure during the quarter. We have no bank debt outstanding and didn't borrow against our revolving credit facility.

On slide 12, we have summarized our updated 2013 expense capital expenditure and income tax rate guidance. With the inclusion of the Xtrakter results effective March 1, we now expect that total 2013 expenses will be in the range of $137 million to $143 million. Xtrakter's operating expenses for 2013 are projected to be approximately $20 million, inclusive of depreciation and amortization expense of approximately $3 million. We expect that roughly 55% of the Xtrakter operating expenses will relate to compensation and benefits expense.

Capital expenditures include computer software and equipment, capitalized software development costs and data center buildout costs. As communicated on previous calls, we will be making a significant technology investment in the Xtrakter business over the next several years. We now expect the total capital expenditures will be between $15 million and $18 million in 2013. We continue to believe that the effective tax rate for the full-year 2013 will be between 38% and 40%. Among other items, the mix of US and foreign source income could cause variations in the effective tax rate. Now let me turn the call back to Rick for some closing comments.

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

Thanks, Tony. We are pleased with the record first-quarter results and the continued momentum in our High Grade, Emerging Markets and High Yield products. Our strategic alliance with BlackRock represents a major step forward for our open trading initiatives and for the development of new electronic liquidity solutions in credit. We are also happy with the progress to date integrating the Xtrakter business and repositioning our European operations for growth. The CDS market continues to embrace electronic trading solutions in spite of the ongoing regulatory delays. Now I would be happy to open the line for your questions.

QUESTIONS AND ANSWERS

Operator

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

Mike Adams - *Sandler O'Neill - Analyst*

Good morning, Rick. Good morning, Tony. Congrats on a solid quarter.

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

Thanks, Mike.

Mike Adams - *Sandler O'Neill - Analyst*

So, first, I just wanted start by touching on the announcement from last night, the alliance with BlackRock. Can you give us any sense for what have activity levels been like on Aladdin in terms of transactions and value traded and what kind of client overlap are we talking about? Are there really any unique customers connected to Aladdin that aren't on your platform right now?

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

We really don't have any detailed information on the trading volumes on ATN. What BlackRock has been very consistent in saying is that they had two primary goals with ATN. One was to improve liquidity and credit markets for the benefit of all market participants and the other was to improve the Aladdin value proposition. And we have been working closely with BlackRock and Aladdin consistently over the life of the Company and we have been talking with them over the last year about different ways that we could help them with those objectives. And at this point, we are very pleased that they have decided that the best way for them to facilitate those goals is to combine their work with MarketAxess.

With respect to the clients of Aladdin, you are right. The majority of the Aladdin clients are MarketAxess users today. However, the work that we contemplate involves much deeper integration between the Aladdin Enterprise Investment System and the MarketAxess trading system. And to the extent that we can both make it easier and more efficient for those clients to transact on the platform, we think the likelihood is that we will find an increase in the order-matching opportunities and an acceleration of adoption rates.

And it is a very powerful community. There is about $14 trillion in assets in total in the Aladdin client base and the BlackRock estimates are that that client base represents something around 30% of the publicly traded corporate debt activity in the US market. So it is a very powerful community and we are very pleased to be working with them and the integration work is already underway.

Mike Adams - *Sandler O'Neill - Analyst*

Got you. Thanks, Rick. And then maybe this is one for Tony, but on the distribution fees, saw an uptick in the other credit line this quarter. First time we have seen that in a while. Is this something that is related somehow to Xtrakter or maybe you're adding some new dealers. Do you mind giving a little bit of color there?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Sure, Mike. The uptick I would say was pretty modest, so it is up a couple of hundred thousand dollars. And you will recall, in Europe, we did adjust the distribution fee plan back in March of last year and we haven't had any dealer movement since that time. And really the only change from the fourth quarter in that category, we do have some programs for Emerging Markets and High Yield where some dealers are subject to minimum fees each month. And some of that residual has now fallen into that bucket. But really nothing to speak of there.

And just the expectation going forward is that the distribution fees in the second quarter will be consistent with the first quarter. We are not tracking any movements in dealers migrating from one plan, say the variable plan to the fixed plan, either in the US or in Europe. So we are always cautious around those dealer movements as dealers respond to market conditions and the regulatory environment. But, right now, we are just not tracking anything significant.

Mike Adams - *Sandler O'Neill - Analyst*

Okay, thanks. And last one from me, I don't believe you bought back any stock in the quarter. Is that entirely related to the Xtrakter acquisition that closed or is it something to do with, given where the stock is trading now, like near at all-time highs, maybe just a less attractive use of capital. Do you mind just commenting on what maybe we can expect the next couple of quarters?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Sure. So, Mike, you're right. In the first quarter, we did not repurchase any shares and you will recall we had a pretty active repurchase program or repurchase activity in 2012. We repurchased over 2.5 million shares last year, $75 million and change was expended last year. Those repurchases were accretive to earnings. At this time, we have got a small program remaining under an existing authorized program, but we are going to be opportunistic in how we use that going forward.

Mike Adams - *Sandler O'Neill - Analyst*

Okay. Thanks. That is all from me.

Operator

Jillian Miller, BMO Capital Markets.

Jillian Miller - *BMO Capital Markets - Analyst*

Thanks, guys. I was just wondering on the BlackRock, I guess, agreement, can you give us any detail on how that works from a financial perspective? Like is it some kind of revenue share or I guess I am not entirely clear how you get compensated for it.

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

Yes, no, there is no revenue share involved with the agreement with BlackRock. It is really about the integration and the seamless workflow between the two platforms and a commitment to work together to bring industry participants together to promote open trading solutions. And our model, Jillian, hasn't changed. As we mentioned in the prepared remarks, the majority of our revenue comes from commission revenue and there will be transaction fees for open trading just like we do have today in our core business for RFQ client to dealer trading. So there is really no change in the economic model here.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay. So as this BlackRock platform grows, it is the same thing as if your own client to client business within MarketAxess were growing from a P&L perspective?

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

Yes, that is the case. We may try different models around fees to incent volume, whether that is with BlackRock or Aladdin or other active clients in an attempt to accelerate the adoption rates. But you are correct; the basic fee plans will be the same.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay, great, thanks. Then on the Agency and High Yield, I think last quarter, you guys mentioned that a lot of the growth is coming from clients that are already active in your High Grade products, so they are simply expanding the breadth of the products that they trade on your system. And I was hoping maybe you could give us an idea for penetration there. Are we talking 25% of your current High Grade users are also using High Yield and Emerging Markets? Is it higher and where can that figure go longer term?

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

Yes, I don't think that we have the specific overlap numbers prepared today. But we are happy to come back to you and the rest of the analysts with those kind of stats in the future. But there is no question that most of the volume that we are enjoying and the growth of and EM is coming from existing High Grade clients that have just gotten more comfortable trading even less liquid products electronically. But there is still a base of clients that are still primarily in High Grade where there is remaining opportunity to continue to cross-sell them and to get them involved in more product areas.

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

And I haven't freshed up the statistics, but last year when we looked at this, we had more than 400 unique clients trading both Emerging Markets and High Yield products. That is something less than we have in the High Grade product area, but needless to say there is a fair amount of overlap and we think we have reached a fair amount of critical mass outside of High Grade now in Emerging Markets and High Yield.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay, thanks. And then on the -- well, I am not sure how much this applies to your guys' operation, but I thought I would ask. So the collateral requirements for single name clearing from the buy side for CDS has been set kind of surprisingly high I guess by the SEC and some of the clearinghouses have even said it doesn't make a whole lot of sense to even offer clearing given those developments. And I know this was one of the areas where you guys had seen a competitive advantage for yourself in a single name. So I was just wondering if those margin issues and everything that is going on with the SEC between the SEC and ICE has an impact on your platform or whether this is something that you don't really see playing into the longer-term growth prospects for your swap execution facility?

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

Yes, we may not be your best source on the collateral requirements and the impact on single name trading, but what we can say is we certainly are hearing anecdotally that the margin requirements for bank-owned FCMs, which the SEC has temporarily established, we understand it at twice the level of the clearinghouse margin requirements, has slowed the transition of clearing of single names into the clearinghouses. And if you look at the DTCC data, index volumes seem to be holding up reasonably well, but single name volumes have been declining. And it looks to us like they are down somewhere around 25% from where they were a year or two ago.

So there has been some impact there. It is very difficult to estimate what portion of that is coming from some of the indigestion around the margin requirements and central clearing and what might be attributable to the lack of volatility in some of those names in fewer trading opportunities in the short term because of the lack of volatility in the interest rate environment.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay, got it. And then just one final one from me. I was wondering if the BGC sale of eSpeed and kind of the multiple they were able to garner for that electronic trading platform has led you guys to kind of rethink any of your opportunities and your kind of potential as an acquisition targeter. Are you still kind of feeling like MarketAxess has a really strong growth potential to stand alone and your primary focus is on kind of remaining that way?

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

As you have heard today, we couldn't be any more excited about what we have going on organically and the breadth of support that we have in the market with investors and dealers. And it is an exciting time for the Company to see the adoption rates accelerating in US cash credit products to see the industry moving forward with electronic trading and CDS and to have really exciting new capabilities in Europe that we think will be part of the MarketAxess turnaround story there. So our focus continues to be on building our business organically.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay, thank you.

Operator

Niamh Alexander, KBW.

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

Hi, thanks for taking my questions and congrats on the BlackRock solution. I mean I think we all were really shocked when we saw the stock come down so much last year and some of [it supported it] because the liquidity in this business is just so challenging. So clearly, BlackRock's solution is changing its strategy a little bit to work with you I think is a really -- it really commends the platform.

On the same note though, I mean we have seen some press headlines -- you and I have talked a bit, Rick, about competitor independent venue or maybe broker-backed, getting some heightened marketshare around certain events and corporate events in the market. Is that something that you can compete with if they have a different model? Is it more like a central limit order book? Is that something -- how is your development of the central limit order book going? Thinking about rolling it out soon?

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

Yes, no, we have said in the past we are not at all surprised to see the increase in electronic trading in the credit space with such broad expectation that the electronic share will be significantly higher in the future. It is no surprise that new competition is popping up. We are still not back to where we were when we started when there were 60 platforms in the market. But we are seeing some new venues and not at all surprising that dealers and investors are testing different protocols and trying to find liquidity solutions in a variety of different forms.

I think ultimately we still feel great about our competitive position and our strategy, we think, is the right one longer term. The independence of the platform allows us to work with all dealers and investors. Nothing that we are doing excludes anyone from participating in any of our protocols and we have a wide menu of trading options. So we are leveraging what we have done well over the last 13 years in building the largest client to dealer electronic trading network primarily in our core RFQ or auction protocol by building on top of that efficient new trading solutions that will allow new counterparties to trade with one another and create alternative sources of liquidity.

So when you look across the range from RFQ to the success that we are already having in market lists, we have [ClientAxess Live], which allows passive indications of interest to rest in the system and as we announced yesterday, we have got our first launch of central limit order book capability in the CDS single name market. So we feel great about the network. We feel great about the trading protocols and we remain confident in our competitive position.

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

Okay, fair enough. On the Xtrakter deal, it just closed. Help me think about where most of the revenue will fall. Is it more the information services and less in the transaction side? And then you are only a few weeks into it really, but I guess a couple of months nearly, but what surprised you so far positively? Negatively, it sounds like there is a bit of investing to do. You kind of recognized that before you bought it anyway, but what is your initial thoughts post-close?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

It's Tony. So on the Xtrakter side, the first thing I would say is that there probably aren't any real surprises. We did a fair amount of diligence around the -- before the acquisition. It seems to be well-received by clients and by our buy side clients also. So there haven't been really many surprises there. In terms of revenue expectations, this will be more near term, we had talked a little bit on the fourth-quarter call about a typical revenue run rate for Xtrakter. It is around $2 million per month. It is all going to fall, for 2013, likely all to fall in that information and post-trade services line. So that is where the revenues will fall.

Going forward though, there is certainly an expectation that revenue synergies around new data products, around additional trade-matching opportunities, as the regulatory environment changes in Europe, there is additional opportunities on the data side. So we certainly expect to drive revenues forward in 2014 and beyond. But, again, for 2013, there is sort of a stable revenue run rate all falling in that information and post-trade services line.

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

And it is probably a nice boost to that business because there have been some marketshare losses, but would you say the management and your European team are kind of a lot more upbeat now with kind of more heft as it were?

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

If we look at how our employees have responded, and this is collectively both here in the US and in London and with the Xtrakter team, it is nothing but positive vibes coming out of the acquisition. We plan on combining the group in London. We will be moving physical space within the next four or five months combining one group in London. We will be combining, and we will have a single data offering globally. So there is a fair amount of activity to get the two groups working together. And when we talk about Europe going forward, it is not -- while we will have different brands, it is really not going to be talking about two different businesses. It will be one customer-facing business in London.

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

Okay, fair enough. And then just lastly, I guess somebody asked about the cash earlier, but help me think about your appetite. You said focus on organic growth, but I still think there would be some really neat little retail venues that would fit very well with your business and you have the cash. Help me think about your appetite to just make some acquisitions, some additional acquisitions if the right opportunity comes along. And is there anything you have seen recently that you can't really talk specifically to, but maybe give a sense of activity now versus a year ago?

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

Yes, I think that we are really encouraged with the early signs with Xtrakter. And if we do find other acquisitions that fit with our core strategy as well as that one does, there is something that we would be very interested in and we have lots of capacity. We have excess capital on the balance sheet and no debt and a public currency as well. So it is really all about sticking with our core strategy around building great solutions for electronic trading in the fixed income markets and that could include anything from data to other complementary e-trading venues to post-trade services.

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

Okay, fair enough. I will get back in line. Thanks so much.

Operator

Patrick O'Shaughnessy, Raymond James.

Patrick O'Shaughnessy - *Raymond James - Analyst*

Hey, good morning, guys. So my first question, we have talked in the past about your addressable market in the High Grade space and it is probably roughly 50% of the market, right, so you subtract out the block trades, subtract out some of the dealer/dealer trades and what you're left with is around 50%. How do you think about the addressable market in the High Yield and the Emerging Markets space?

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

We do a similar exercise there, Patrick and where we really found that we have had success in is similar in that it tends to be the smaller flow trade sizes, but it also tends to be in the higher credit quality credits and issuers. And so we don't get to 50% of that market when we look at it on that

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basis; we probably get to something that is more like 25% or 30% of the market. But it is still a material step above where we are currently and lots of runway in front of us.

In Emerging Markets, it is a little bit harder to be scientific because we don't have the benefits today of a TRACE tape, but about half the market is EM sovereigns where you would expect the marketshare to be higher and the other half is EM corporates. And I think if you take a blended average of Emerging Markets, you probably come up somewhere in the same ballpark as you do for High Grade corporates.

Patrick O'Shaughnessy - *Raymond James - Analyst*

Got you. Understood. Thank you for that. The second question, kind of on the same theme, so your High Yield and Emerging Markets have been kind of two really good growth stories for you in the last year or so. And with the reclassification today, I guess I am a little bit surprised because previously you have kind of been somewhat masking the performance of those two groups with your Agency business and now you are pulling out Agency, but you are combining them with the Eurobond business that is not doing terribly well. So why not just more explicitly break out what you think your marketshare is, what you think your revenue is from those products and help investors better understand the trends there?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

Sure. Patrick, it is a bit of a balancing act. So we know there is a desire from the analyst and investor community for more granularity on the volumes. And then on our side, quite frankly, we are trying to limit information flow in some ways just for competitive reasons. And what happened to the prior volume category -- if you looked at the all other bucket, it became a catchall for every product outside of Eurobonds and High Grade and if you look back over time, you look at the fluctuations in volumes and fee capture in that other category, it was not easy to predict what was going on there.

We have, as we mentioned in the prepared remarks, we have regrouped the volumes now to products with like liquidity characteristics and similar fee capture. We think it is going to eliminate some of the variability in fee capture going forward. We also think it does -- it is a better grouping; it scales a little bit better. We can envision -- for example when we start reporting CDS index, it would fall into that liquid products category.

So we are trying to balance these different constituencies and Patrick, we have provided a fair amount of information here. On the call, we provided information on how much Emerging Markets and High Yield volume were doing. We have got a little more scientific on size of market. I know we are not getting you all the way there, but I think we have provided the tools to track marketshare by product. If you make some of the assumptions and you look at that pie chart on average daily volume, we are giving you information on and EM volumes. So I don't think it is any less than what we were providing and for us, it is a little better grouping.

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

And just one follow-on comment to that too, Patrick. We have looked at the peer group that we can identify that is involved in fixed income e-trading. Our current view is that we are leading the league in transparency and public information. If you disagree with that, and there is anything that you see out there that establishes best practices in a way better than we are, we would love to know about it, but we think we are more transparent than our competitors.

Patrick O'Shaughnessy - *Raymond James - Analyst*

I would probably agree with that. Certainly, the exchanges provide a lot of product-level detail, but compared to most of the other firms more in the same space that you are, your transparency is probably best-in-class, but you can always do better.

Last question from me, so I think my takeaway on your partnership with BlackRock is it seems like the biggest advantage to you is kind of distribution. It gets you on their front-end Aladdin system, makes it easier for their clients to trade on your platform. My question would be does that point out

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some sort of distribution flaws with your existing solution? Is there something about how people currently trade on MarketAxess that is a little bit tougher than it should be and so Aladdin can resolve some of that, but maybe there is additional wood to chop here?

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

We have been the leader in innovation around workflow and ease of execution for credit for the last 13 years. But we can always get better and every quarter, we are working on enhancements front to back, Patrick, to make it easier for our clients to execute and easier for them to identify trading opportunities and trade matches. And I think working closely with Aladdin, we both believe that we can make it even easier for our combined clients.

Quite honestly, I think that is part of the value here. The other is getting the support and market influence from BlackRock and their Aladdin community really behind our open trading initiatives and reducing the fragmentation that has been out there that is working against everyone's objective to really create a more liquid market. And we couldn't be more pleased to be working with BlackRock to really consolidate the attention around the MarketAxess solutions and really increase the efficiency and liquidity around the overall market.

Patrick O'Shaughnessy - *Raymond James - Analyst*

All right, got you. Thank you very much.

Operator

Hugh Miller, Sidoti.

Hugh Miller - *Sidoti & Co. - Analyst*

Hey, good morning. Just had a couple of questions that weren't addressed. One of which is you gave us some detail on your expectations for marketshare for April. As we are taking a look at the trends for US High Grade, I mean it seems like we are seeing some good growth in average daily volume, up in the high single digits year-over-year. I was wondering if you could just talk about is there anything you are seeing that is driving that or is it just more of a function of the lack of holidays falling in April relative to prior years?

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

My personal view, Hugh, and I don't know if you have been seeing it in the other market structure companies that you follow, but I definitely think that there has been a small impact from the early holiday schedule this year versus most years where April is the holiday month. And if you look, we do have more trading days now in April than we normally do and a few less days in the first quarter.

So I do think that what has happened is a little bit of the normal March volume has shifted into April where the second half of March in particular was slightly weaker than normal, but I would expect that what we are seeing in the TRACE numbers reflects that that has shifted into April.

Hugh Miller - *Sidoti & Co. - Analyst*

Okay. And Rick, I believe you participated in a panel, a CDS panel last week and just if you could provide us insight into the kind of core takeaways that you had from that and any update as you are feeling for index and single name time horizon for regulatory changes?

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

Yes, happy to do both. The panel last week in DC was actually an SEC fixed income roundtable that was focused on bonds. So there were four panels down there during the day, two on the municipal bond market and two on the corporate bond market and I was pleased to be invited to participate in the corporate bond panels.

But from our perspective, in early days, the SEC is seeking industry input on many of the same issues that we saw emerge from Dodd-Frank for swaps with respect to looking at transparency, competition, liquidity, turnover, electronic trading trends in the bond markets in order for them to think about policy that might be beneficial to all market participants.

With respect to your other question on CDS, I think we and others have been frustrated with the pace and we don't have any reason to believe that the finalization of the rules is upon us. There seems to be an impasse on some fairly important differences in the final rule set and we do not have anything to share with you today in terms of any expected dates from either the CFTC or the SEC.

Hugh Miller - *Sidoti & Co. - Analyst*

Okay. Okay. And the last question I had was with regards to kind of the dynamics of the US High Grade market and obviously, there is tons of addressable room for marketshare growth, but was wondering your viewpoint as you view the next couple of years here ahead, is it kind of similar to your past view about grinding it out and seeing that kind of 100 to 200 or so basis point increase in marketshare? Or do you foresee kind of the potential for acceleration in that marketshare growth opportunity?

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

We have always suggested that history is probably the right proxy for trying to estimate adoption rates and share gains in the future. The wildcard here really is the introduction of new and exciting trading protocols that are giving clients and dealers different ways to engage electronically to complete both corporate bond and CDS trades. And that makes it more difficult to project the adoption rates and the share gains going forward. But we are encouraged with some of the early takeup signs and clearly if we can get multiple trading protocols and client communities contributing to share growth, there is the possibility that we will see improved share gains in the future.

Hugh Miller - *Sidoti & Co. - Analyst*

Okay. Appreciate the insight. Very helpful. Thanks.

Operator

Howard Chen, Credit Suisse.

Howard Chen - *Credit Suisse - Analyst*

Hi, good morning. Congrats on the quarter.

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

Thank you.

Howard Chen - *Credit Suisse - Analyst*

Rick, a follow-up on the BlackRock Aladdin announcement. Just at a high level, what specifically does this partnership provide you with that you didn't have before?

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

I think we both feel that this is a consolidation of efforts and BlackRock has been an early adopter of electronic trading here and in other asset classes, they have been a thought leader. They clearly felt a year ago that the investment was well worth it with their Aladdin client community to test some new matching protocols and learn from the experience.

The biggest thing is we are now taking everything that they have learned and the support that they have from their Aladdin clients and consolidating that with everything that we do. So again, it is reducing the fragmentation that has been out there and we think the best thing is it is going to increase the market focus and attention on one set of solutions and we are fortunate that those are here at MarketAxess.

Howard Chen - *Credit Suisse - Analyst*

Understood. Thanks. And then apologies if I missed this in the prepared remarks, but how is the dealer hit rate balance progressing this quarter and I guess that is it?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

So Howard, on the hit rates, they were slightly better in the first quarter. So if we look back over the prior four quarters in 2012, those hit rates for High Grade were in the upper 60%s, ranging from say 67% to 68%. First quarter, we had a pretty good balance in the order book, so a pretty good balance between bids and offers and that hit rate was up to around 73%. And if you look at that marketshare increase year-over-year, 11.4% Q1 of '12, 12.3% Q1 of '13, virtually all of that increase came from that higher hit rate.

Howard Chen - *Credit Suisse - Analyst*

Great, thanks. And then my final question, a follow-up on the CDS opportunity. I agree with you, Rick, it is really early days, but one drumbeat that appears to be growing a bit is the potential futurization of credit trading products. So wanted to get your latest views on that as either a source of opportunity or concern.

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

Yes, we think that there is a place in the credit market for CDS futures and unlike some of our competitors, we are actually big fans of expanding the market through a liquid futures instrument. And our view is that the futures markets could provide a highly liquid way for new participants to trade credit at the top of the funnel, which will benefit all parts of the credit market with more liquidity flowing through the single name market and even the corporate bond market.

So we are not threatened by it. As you know, we feel that our technology and network advantages are going to come through most clearly in the single name market. And to the extent that we can build liquidity in another way through new participants that trade credit futures, we think that is a good thing for the overall market.

Howard Chen - *Credit Suisse - Analyst*

Great. Thanks for taking the questions.

Operator

(Operator Instructions). Michael Wong, Morningstar.

Michael Wong - *Morningstar - Analyst*

Good morning. Can you talk if the proposed European Union financial transaction tax affects the securities traded on your platform and how your platform might fare compared to competitors if a transaction tax comes to pass?

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

Yes, some of the proposed transaction taxes in various asset classes, including bonds, appear to be penal that ultimately if they were passed in their current form we think would have a negative effect on overall market turnover in the region.

As you can see, Michael, on a relative basis today, Eurobond trading is a smaller part of our business and so the impact for us in the aggregate is not likely in the current position to be that significant. We clearly are in the process of investing more heavily in Europe to build a larger electronic trading business and at the margin, we would prefer not to see these transaction taxes go into place.

Michael Wong - *Morningstar - Analyst*

Okay. Have you found any changes in the market now that the broker-dealers are growing their balance sheet a bit, such as like does it take away volume from your platform or maybe did it contribute to the higher hit rate in the first quarter?

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

Yes, the dealer balance sheets have bounced back a little bit and as Tony mentioned, our hit rates are up a little bit. We still think that there is a liquidity challenge in the market overall. If you look at the amount of corporate debt outstanding in the US market, it is up about 50% since 2008. So there has been a huge increase in debt outstanding and a fairly significant overall decline in dealer balance sheets for market-making. And that really calls out for new electronic solutions that are going to promote alternative sources of liquidity.

And the real win here is that, when we look longer term, it appears that the long-term turnover rate of corporate debt is somewhere around 0.95 to 1 time per year. The turnover rate right now is below 2008 turnover. It is somewhere around 0.72 or 0.73. So if we are successful in developing these new solutions, to get turnover back up to the normal long-term averages, then TRACE volume overall would be significantly higher than it is currently.

Michael Wong - *Morningstar - Analyst*

Okay, a really quick question. Is the $15 million to $18 million CapEx pretty good for the next several years or would you have an uptick building up a swap execution facility?

Tony DeLise - *MarketAxess Holdings Inc. - CFO*

I think that $15 million to $18 million, we typically don't provide guidance beyond the current year, but just in the context of what is going on this year, we do have one very big item identified. We are building out another data center here in the US that is a replacement to our primary production data center. The all-in cost is around $4 million. We would not expect that to recur. So all things being equal, without giving you specific guidance longer term, there is this one item in 2013, which I would call nonrecurring.

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Michael Wong - *Morningstar - Analyst*

Okay, thank you.

Operator

We currently have no further questions in the queue. At this time, I would like to turn the call back to Rick McVey for closing remarks.

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

Thanks for joining us this morning and we look forward to talking to you again next quarter.

Operator

Thank you for your participation in today's conference. This concludes the presentation. You may now disconnect. Good day.