

Hyperion Asset Management

Company Profile

MarketAxess Holdings Inc.

Main Business Activities

MarketAxess Holdings Inc. (MarketAxess) operates the leading electronic fixed-income trading platform in the United States. The platform offers a traditional request-for-quote model, electronically connecting broker dealers (BDs) with institutional investors as well as all-to-all trading functionality called Open Trading, that provides anonymous trading between all market participants, providing an attractive alternative liquidity source. The company also offers market data products and trade management services.

Key Value Proposition to Customers

There is a clear value proposition of electronic trading compared to manual trading which allows faster and more efficient price discovery, ultimately leading to tighter spreads and lower costs. Further value is provided by MarketAxess' unique all-to-all trading with its Open Trading, giving the ability to investors to trade anonymously, and directly with each other, providing a larger pool of potential customers and liquidity. There are also benefits from the network effect as more participants are attracted to the platform for liquidity and cost-efficiency, liquidity levels increase and spread costs lower. Spread costs are more significant to institutional investors than venue or brokerage fees given the notional trade size of bonds. This further enhances the value proposition to institutional investors through cost efficiency and broker-dealers via liquidity/distribution, thus creating a virtuous cycle.

Sustainable Competitive Advantages and Outlook

MarketAxess benefits from the network effect. As more participants are attracted to the platform for liquidity and cost-efficiency, liquidity levels increase and spread costs tighten, further enhancing the value proposition to institutional investors through cost efficiency and broker-dealers via liquidity/distribution, thus creating a virtuous cycle. Market Axess also has established relationships and integrations with over 1,800 institutional investors and broker-dealers, which is difficult to replicate.

Overall Company Growth Options

The structural shift towards electronification of fixed income markets is expected to continue over time, just like markets for other asset classes have shifted. It is estimated that approximately 35% of U.S. investment grade bonds are traded electronically today, and in all of its key markets, only 22% is currently traded electronically with MarketAxess. Further penetration across products is expected to support MarketAxess' organic revenue growth over the next decade.

Important Disclaimers

For Recipients in Australia: This report has been issued and distributed by Hyperion Asset Management Ltd (ABN 80 080 135 897) (AFSL 238380). Hyperion Asset Management Ltd is the provider of the general advice ('the Service') and takes responsibility for the production of this report. The Service is provided through the research of investment securities.

To the extent the Report contains general advice it has been prepared without reference to an investor's objectives, financial situation or needs. Investors should consider the advice in light of these matters and, if applicable, the relevant Product Disclosure Statement before making any decision to invest. Refer to our Financial Services Guide (FSG) for more information at <https://www.hyperion.com.au/fsg/>