

MARKETAXESS HOLDINGS INC

Form 10-Q

July 26, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number 001-34091

MARKETAXESS HOLDINGS INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

52-2230784
(IRS Employer
Identification No.)

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299 Park Avenue, 10th Floor New York, New York 10171
(Address of principal executive offices) (Zip Code)

(212) 813-6000

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See definition of "large accelerated filer," "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of July 24, 2018, the number of shares of the Registrant's voting common stock outstanding was 37,570,970.

MARKETAXESS HOLDINGS INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018

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PART I — Financial Information

Item 1. Financial Statements

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

(Unaudited)

	As of	
	June 30, 2018	December 31, 2017
	(In thousands, except share and per share amounts)	
ASSETS		
Cash and cash equivalents	\$ 170,686	\$ 167,014
Investments, at fair value	249,591	239,521
Accounts receivable, net of allowance of \$74 and \$178 as of		
June 30, 2018 and December 31, 2017, respectively	61,883	52,636
Goodwill and intangible assets, net of accumulated amortization	62,867	63,059
Furniture, equipment, leasehold improvements and capitalized		
software, net of accumulated depreciation and amortization	50,088	38,548
Prepaid expenses and other assets	21,030	18,717
Deferred tax assets, net	1,453	1,737
Total assets	\$ 617,598	\$ 581,232
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities		
Accrued employee compensation	\$ 23,612	\$ 36,502
Income and other tax liabilities	12,972	13,061
Deferred revenue	3,595	2,660
Accounts payable, accrued expenses and other liabilities	20,041	14,241
Total liabilities	60,220	66,464
Commitments and Contingencies (Note 10)		
Stockholders' equity		
Preferred stock, \$0.001 par value, 4,855,000 shares authorized,		
no shares issued and outstanding as of June 30, 2018 and		
December 31, 2017	—	—

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Series A Preferred Stock, \$0.001 par value, 110,000 shares authorized,

no shares issued and outstanding as of June 30, 2018 and

December 31, 2017

Common stock voting, \$0.003 par value, 110,000,000 shares

authorized, 40,420,215 shares and 40,402,059 shares issued

and 37,578,970 shares and 37,620,736 shares outstanding as of

June 30, 2018 and December 31, 2017, respectively

121 121

Common stock non-voting, \$0.003 par value, 10,000,000 shares

authorized, no shares issued and outstanding as of

June 30, 2018 and December 31, 2017

Additional paid-in capital

331,056 331,081

Treasury stock - Common stock voting, at cost, 2,841,245 and

2,781,323 shares as of June 30, 2018 and

December 31, 2017, respectively

(172,695) (159,791)

Retained earnings

410,419 353,583

Accumulated other comprehensive loss

(11,523) (10,226)

Total stockholders' equity

557,378 514,768

Total liabilities and stockholders' equity

\$617,598 \$ 581,232

The accompanying notes are an integral part of these consolidated financial statements.

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands, except share and per share amounts)			
Revenues				
Commissions	\$96,113	\$87,015	\$198,885	\$181,037
Information services	6,930	6,497	13,996	12,682
Post-trade services	3,620	2,489	8,196	4,945
Other	301	313	601	614
Total revenues	106,964	96,314	221,678	199,278
Expenses				
Employee compensation and benefits	26,199	25,319	55,033	52,603
Depreciation and amortization	5,790	4,790	11,059	9,483
Technology and communications	5,793	4,822	11,572	9,407
Professional and consulting fees	5,426	4,086	10,483	8,365
Occupancy	3,467	1,422	6,804	2,826
Marketing and advertising	3,535	2,782	5,600	4,668
Clearing costs	2,012	1,517	3,737	2,844
General and administrative	2,708	2,591	5,183	4,939
Total expenses	54,930	47,329	109,471	95,135
Operating income	52,034	48,985	112,207	104,143
Other income (expense)				
Investment income	1,383	840	2,551	1,587
Other, net	(207)	(252)	(535)	(550)
Total other income	1,176	588	2,016	1,037
Income before income taxes	53,210	49,573	114,223	105,180
Provision for income taxes	12,723	11,550	25,796	24,694
Net income	\$40,487	\$38,023	\$88,427	\$80,486
Net income per common share				
Basic	\$1.10	\$1.03	\$2.39	\$2.18
Diluted	\$1.07	\$1.00	\$2.33	\$2.11
Cash dividends declared per common share	\$0.42	\$0.33	\$0.84	\$0.66
Weighted average shares outstanding				
Basic	36,950	36,853	36,952	36,852
Diluted	37,862	38,077	37,874	38,095

The accompanying notes are an integral part of these consolidated financial statements.

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
	(In thousands)			
Net income	\$40,487	\$38,023	\$88,427	\$80,486
Net cumulative translation adjustment and foreign currency exchange hedge, net of tax of \$1,328, \$(1,106), \$506 and \$(1,634), respectively	(1,288)	1,325	(1,020)	960
Net unrealized gain (loss) on securities available-for-sale, net of tax of \$18, \$(20), \$(89) and \$(6), respectively	57	(33)	(277)	(10)
Comprehensive income	\$39,256	\$39,315	\$87,130	\$81,436

The accompanying notes are an integral part of these consolidated financial statements.

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(Unaudited)

	Common Stock - Additional Common		Treasury Stock - Common	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
	Common Stock Voting (In thousands)	Additional Paid-In Capital	Common Stock Voting	Retained Earnings	Accumulated Other Comprehensive Loss	Total Stockholders' Equity
Balance at December 31, 2017	\$ 121	\$ 331,081	\$(159,791)	\$ 353,583	\$ (10,226)	\$ 514,768
Net income	—	—	—	88,427	—	88,427
Cumulative translation adjustment and foreign currency exchange hedge, net of tax	—	—	—	—	(1,020)	(1,020)
Unrealized net loss on securities available-for-sale, net of tax	—	—	—	—	(277)	(277)
Stock-based compensation	—	7,601	—	—	—	7,601
Exercise of stock options	—	371	—	—	—	371
Withholding tax payments on restricted stock vesting and stock option exercises	—	(7,997)	—	—	—	(7,997)
Repurchases of common stock	—	—	(12,904)	—	—	(12,904)
Cash dividend on common stock	—	—	—	(31,591)	—	(31,591)
Balance at June 30, 2018	\$ 121	\$ 331,056	\$(172,695)	\$ 410,419	\$ (11,523)	\$ 557,378

The accompanying notes are an integral part of these consolidated financial statements.

MARKETAXESS HOLDINGS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Six Months Ended	
	June 30,	
	2018	2017
	(In thousands)	
Cash flows from operating activities		
Net income	\$88,427	\$80,486
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,059	9,483
Stock-based compensation expense	7,601	7,468
Deferred taxes	1,448	1,399
Other	1,014	740
Changes in operating assets and liabilities:		
(Increase) in accounts receivable	(9,350)	(4,669)
(Increase) in prepaid expenses and other assets	(2,330)	(9,407)
(Increase) in corporate debt trading investments	(3,288)	(111)
(Increase) in mutual funds held in rabbi trust	(1,203)	(1,620)
(Decrease) in accrued employee compensation	(12,890)	(11,703)
(Decrease) in income and other tax liabilities	(1,164)	(3,068)
Increase in deferred revenue	935	561
Increase (decrease) in accounts payable, accrued expenses and other liabilities	5,559	(441)
Net cash provided by operating activities	85,818	69,118
Cash flows from investing activities		
Available-for-sale investments		
Proceeds from maturities and sales	152,335	101,354
Purchases	(159,192)	(143,214)
Purchases of furniture		