

OTC Markets Group

Gaining recognition of its premium markets

Between 2008 and 2018, OTC Markets Group (OTCM) recorded compound revenue growth of 11% and more than doubled its operating margin. This reflected an expanding client base, sustained investment in new products and technology and a focus on increased data-driven transparency for market participants. OTCM has gained increasing numbers of corporate clients and regulatory recognition for its premium markets, the OTCQX Best Market and OTCQB Venture Market. Prospectively, a continued focus on growing market share in its trading business, on gaining additional regulatory recognitions and on adding corporate clients, together with the addition of related services organically and through incremental acquisitions should provide the basis for long-term growth.

Providing transparent and efficient markets in the US

OTCM's mission is to create better informed and more efficient financial markets for international and domestic corporate issuers, market participants and investors. OTCM's markets are tiered based on the adequacy and timeliness of disclosure, financial criteria and adherence to governance standards. OTCM's markets provide issuers with access to public trading in the US at a cost-effective price and with a lower compliance burden, compared with a listing on a registered national securities exchange such as Nasdaq. Approximately 87% of OTCM revenues are subscription-based rather than being transactional. OTCM has three business lines: OTC Link operates two SEC registered Alternative Trading Systems and in Q219 accounted for 19% of revenue; Market Data Licencing (40% of revenue) distributes market, compliance and company data together with security information; and Corporate Services (42% of revenue) operates the OTCQX and OTCQB markets and provides a suite of additional services to companies trading on all OTCM markets.

Market background and outlook

While the main US equity markets are still showing strong gains year to date, the macro background is uncertain and venture markets have shown weakness. Looking beyond near-term market moves, OTCM remains committed to developing its markets by enhancing its offering to corporates and market users. The long-term outlook for its cost-effective secondary markets appears promising, particularly as online capital raising gains momentum.

Valuation: Trading at or below peer P/Es

OTCM trades broadly in line with the average prospective P/E multiples for global exchanges and below financial information providers.

Edison estimates

Year end	Revenue (\$m)	PBT (\$m)	EPS* (\$)	DPS** (\$)	P/E (x)	Yield (%)
12/17	54.7	18.4	1.06	1.16	31.7	3.5
12/18	59.3	19.8	1.36	1.23	24.7	3.7
12/19e	62.8	18.2	1.25	1.27	26.9	3.8
12/20e	66.6	21.0	1.43	1.33	23.5	4.0

Source: Edison. Note: *Fully diluted and after restricted stock award allocation. **Includes special dividends declared and estimated of 60c, 65c, 67c and 73c for FY17–20e.

Financial services

Price US\$33.61
Market cap US\$390m

Share price graph



Share details

Code	OTCM
Shares in issue	11.6m
Net cash (\$m) at 30 June 2019	24.1

Business description

OTC Markets Group operates the OTCQX, OTCQB and Pink financial markets for over 10,000 US and global securities. OTC Link LLC, a member of FINRA, operates OTC Link ATS and OTC Link ECN, both SEC-registered Alternative Trading Systems. Approximately 87% of revenues are of a subscription-based recurring nature.

Bull

- Investment in transparency and IT is gaining regulatory recognition for OTCQX and OTCQB.
- Cautious M&A strategy designed to augment growth without incurring undue risk.
- Strong cash-positive balance sheet.

Bear

- Potential for competition to become more intensive.
- Investment requirement to sustain IT platform and support longer-term growth.
- Near-term market fluctuations can affect corporate appetite to use OTCM's services.

Analyst

Andrew Mitchell +44 (0)20 3077 5700

financials@edisongroup.com

[Edison profile page](#)

OTC Markets Group is a client of Edison Investment Research Limited