

# OTC Markets Group

Q121 results

Long-term focus remains as volumes spike

Exceptionally high US equity market trading volumes in the first quarter benefited OTC Market's (OTCM's) revenues and at the same time demonstrated the resilience of its systems. The group is maintaining its focus on developing its transparent and cost-effective markets and, encouragingly, the strengthening of net additions of corporate clients has continued, which should be beneficial even as trading activity normalises.

| Year end | Revenue (\$m) | PBT (\$m) | EPS* (\$) | DPS** (\$) | P/E (x) | Yield (%) |
|----------|---------------|-----------|-----------|------------|---------|-----------|
| 12/19    | 62.8          | 18.0      | 1.25      | 1.25       | 33.7    | 3.0       |
| 12/20    | 71.2          | 21.4      | 1.53      | 1.25       | 27.4    | 3.0       |
| 12/21e   | 85.9          | 28.6      | 1.93      | 1.25       | 21.7    | 3.0       |
| 12/22e   | 77.7          | 25.6      | 1.73      | 1.35       | 24.3    | 3.2       |

Note: \*Fully diluted and calculated after restricted stock award allocation. \*\*Including special dividends of 65c each year for FY19–21e and 75c for FY22e.

## Q121 boosted by unprecedented trading volumes

OTCM reported a very strong first quarter with gross revenues of \$26.1m, up 57% compared with Q120. Segmentally this was led by OTC Link (+210%), which benefited from elevated US equity trading levels, but Market Data Licensing (+17%) and Corporate Services (+21%) were also strong. Expenses, including redistribution fees and transaction-based expenses, increased by 46% reflecting volume-related costs and incentive compensation as well as increases in base salaries. This left pre-tax profit up 87% and, after a higher tax charge, diluted EPS increased by 78%. A maintained second quarter dividend of \$0.15 was announced.

## Normalisation likely but also underlying progress

Following the first quarter there are signs that the level of US equities trading activity may be beginning to normalise, and we have assumed that this continues while acknowledging that it is not possible to forecast this with any confidence. This affects our estimates for OTC Link and to some extent Market Data Licensing. The positive trend in corporate clients joining OTCQX and OTCQB is likely to have longer-lasting benefits and work developing new data products and offering new functionality to OTC Link clients should also be helpful through market cycles. Our 2021 estimate for EPS has increased by 23%, while, reflecting our assumptions about normalisation, the estimate for 2022 is only marginally increased (+2%).

## Valuation

Following our estimate changes, the shares trade on a P/E multiple below the average for global exchanges for 2021 but modestly above the figure for 2022. For both years the multiples remain significantly below those of information providers. The high proportion of subscription-based revenues and longer-term potential for development of OTCM's cost-effective markets are supportive factors.

### Financial services

11 May 2021

**Price** US\$42  
**Market cap** US\$491m

|                                 |       |
|---------------------------------|-------|
| Net cash (\$m) at 31 March 2021 | 33.5  |
| Shares in issue                 | 11.7m |
| Free float                      | 63%   |
| Code                            | OTCM  |
| Primary exchange                | OTCQX |
| Secondary exchange              | N/A   |

### Share price performance



|                  |          |          |      |
|------------------|----------|----------|------|
| %                | 1m       | 3m       | 12m  |
| Abs              | 3.1      | 8.6      | 47.2 |
| Rel (local)      | 1.7      | 1.3      | 2.9  |
| 52-week high/low | US\$42.0 | US\$27.3 |      |

### Business description

OTC Markets Group operates the OTCQX, OTCQB and Pink financial markets for over 11,000 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 82% of revenues were of a subscription-based recurring nature in FY20 and 63% in Q121.

### Next events

|              |             |
|--------------|-------------|
| Q221 results | August 2021 |
|--------------|-------------|

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## Q121 results analysis

Exhibit 1 provides a summary of profit and loss figures comparing the Q121 results with Q420 and Q120. In the comments below we are comparing Q121 with Q120 unless stated.

**Gross revenue** increased by 57%, with the largest increase coming from OTC Link where trading volumes on OTC Link ECN and messaging volumes on OTC Link ATS drove a 210% increase in revenue (see subdivisional analysis in Exhibit 3 for further detail). The extent of the first-quarter increase in activity is underlined by the sequential comparison, with OTC Link revenue doubling compared with Q420. OTC Link's commitment to ensuring the reliability of its core systems was validated by this period of exceptionally high activity. Market Data Licensing revenue increased by 17% with the main contributor to this being the growth in non-professional users as retail participation in the equity market increased. Growth in professional users and price increases were among the other factors at play here. Corporate services revenue growth of 21% was generated by a combination of strong additions of new clients for OTCQX and OTCQB markets (see Exhibit 2), price increases and increased demand for Virtual Investor Conferences' services.

Re-distribution fees, which relate to market data services (+6%) and transaction-based expenses (payments for liquidity provision on OTC Link ECN), up eightfold, grew with the respective activities.

**Operating expenses** (before depreciation and amortisation) were up 22%, with the main contributors being personnel costs and clearing and regulatory costs resulting from the expansion of ECN trading (see further detail in Exhibit 4).

At the **pre-tax profit** level, the increase was 87% to \$8.4m, while a higher tax charge of 19% versus 14% left diluted earnings up 78% at \$0.57.

| <b>Exhibit 1: Profit and loss analysis</b>             |               |               |               |                         |                         |
|--|---------------|---------------|---------------|-------------------------|-------------------------|
| <b>\$000</b>   | <b>Q120</b>   | <b>Q420</b>   | <b>Q121</b>   | <b>% change vs Q120</b> | <b>% change vs Q420</b> |
| OTC Link   | 3,320         | 5,095         | 10,282        | 210                     | 102                     |
| Market Data Licensing                                  | 6,745         | 7,358         | 7,899         | 17                      | 7                       |
| Corporate Services                                     | 6,539         | 7,325         | 7,895         | 21                      | 8                       |
| <b>Gross revenues</b>                                  | <b>16,604</b> | <b>19,778</b> | <b>26,076</b> | <b>57</b>               | <b>32</b>               |
| Re-distribution fees and rebates                       | (701)         | (714)         | (741)         | 6                       | 4                       |
| <b>Net revenue</b>                                     | <b>15,903</b> | <b>19,064</b> | <b>25,335</b> | <b>59</b>               | <b>33</b>               |
| Transaction-based expenses                             | (438)         | (1,362)       | (3,539)       | 708                     | 160                     |
| <b>Revenues less transaction-based expenses</b>        | <b>15,465</b> | <b>17,702</b> | <b>21,796</b> | <b>41</b>               | <b>23</b>               |
| Operating expenses (exc depreciation and amortisation) | (10,568)      | (10,530)      | (12,933)      | 22                      | 23                      |
| Depreciation and amortisation                          | (414)         | (491)         | (444)         | 7                       | (10)                    |
| <b>Income from operations</b>                          | <b>4,483</b>  | <b>6,681</b>  | <b>8,419</b>  | <b>88</b>               | <b>26</b>               |
| Other income / net interest                            | 16            | (19)          | 5             | (69)                    | (126)                   |
| <b>Income before provision for income taxes</b>        | <b>4,499</b>  | <b>6,662</b>  | <b>8,424</b>  | <b>87</b>               | <b>26</b>               |
| Taxes  | (644)         | (934)         | (1,586)       | 146                     | 70                      |
| <b>Net income</b>                                      | <b>3,855</b>  | <b>5,728</b>  | <b>6,838</b>  | <b>77</b>               | <b>19</b>               |
| <b>Diluted EPS (\$)</b>                                | <b>0.32</b>   | <b>0.48</b>   | <b>0.57</b>   | <b>78</b>               | <b>19</b>               |
| Operating margin (%)                                   | 28.2          | 35.0          | 33.2          |                         |                         |
| Tax rate (%)   | 14.3          | 14.0          | 18.8          |                         |                         |

Source: OTCM, Edison Investment Research

Exhibit 2 shows how the corporate client base for the OTCQX and OTCQB markets has evolved from the beginning of 2019. After a low point in Q120, the rate of new client additions for both markets improved with a markedly stronger second half of the year. Q121 showed a continuation of the strong momentum with 52 additions for OTCQX and 83 for OTCQB, representing 11% and 9% of the opening client base for each market respectively. At the same time, the rate of cancellations and downgrades was lower than in the prior year period at 6.7% (OTCQX) and 2.5% (OTCQB), leaving net additions in the quarter at 21 and 60 companies respectively. Out of the 52 new

corporates joining OTCQX, 35 were international issuers, a reminder of the importance of these companies as a source of growth and of the value that OTCM can offer to international companies seeking access to the US capital market without the cost and administrative burden of a listing. International companies account for about 65% and 45% of companies on OTCQX and OTCQB.

**Exhibit 2: Evolution of OTCQX and OTCQB corporate client base**

|                                   | Q119 | Q219 | Q319 | Q419 | Q120 | Q220 | Q320 | Q420 | Q121 |
|-----------------------------------|------|------|------|------|------|------|------|------|------|
| <b>OTCQX</b>                      |      |      |      |      |      |      |      |      |      |
| Start                             | 409  | 414  | 421  | 436  | 442  | 414  | 415  | 441  | 461  |
| Additions                         | 30   | 30   | 31   | 32   | 9    | 19   | 44   | 34   | 52   |
| Other (cancellations, downgrades) | (25) | (23) | (16) | (26) | (37) | (18) | (18) | (14) | (31) |
| End                               | 414  | 421  | 436  | 442  | 414  | 415  | 441  | 461  | 482  |
| Net change                        | 5    | 7    | 15   | 6    | (28) | 1    | 26   | 20   | 21   |
| <b>OTCQB</b>                      |      |      |      |      |      |      |      |      |      |
| Start                             | 934  | 941  | 916  | 915  | 907  | 893  | 885  | 874  | 902  |
| Additions                         | 68   | 38   | 53   | 43   | 28   | 45   | 62   | 94   | 83   |
| Other (cancellations, downgrades) | (61) | (63) | (54) | (51) | (42) | (53) | (73) | (66) | (23) |
| End                               | 941  | 916  | 915  | 907  | 893  | 885  | 874  | 902  | 962  |
| Net change                        | 7    | (25) | (1)  | (8)  | (14) | (8)  | (11) | 28   | 60   |

Source: OTCM, Edison Investment Research. Note: Start, end and additions (new sales) figures are reported, while the other figures (cancellations and compliance and other downgrades) are a residual.

Exhibit 3 shows an indicative subdivisional analysis of gross revenue based on management commentary in the Q121 report. The most prominent feature here is the \$5.9m increase in revenue for OTC Link ECN from \$0.7m to \$6.7m. Not shown in the table but the ECN generated revenue of about \$2.2m in Q420. Following this substantial growth, OTC Link ECN accounted for 26% of group gross revenue, but after deducting transaction-related expenses this falls to, a still significant, 14% of net revenue.

In Market Data Licensing, the main contributor to revenue growth was the increase in the number of non-professional users, which generated a 138% increase in revenue year-on-year and 38% sequentially (not shown). Increases in professional user licences and subscriptions to other products including compliance data and analytics also contributed.

In Corporate Services, OTCQX and OTCQB followed a relatively stable Q420 with material increases in revenue driven by higher sales and price increases. Virtual Investor Conferences continued to show very strong growth, hosting seven conferences in the quarter with 143 companies participating (Q120: five and 46 respectively).

**Exhibit 3: Indicative subdivisional revenue analysis**

| \$000                                   | Q120         | Q121          | Change       | Change %    | Comments  |
|---|--------------|---------------|--------------|-------------|---|
| <b>OTC Link</b>                         |              |               |              |             |   |
| OTC Link ECN                            | 723          | 6,666         | 5,943        | 822%        | High market volumes and subscribers increase to 82 vs 61            |
| OTC Link ATS message revenues           | 898          | 1,311         | 413          | 46%         | High trading volumes  |
| QAP One Statement                       | 122          | 721           | 599          | 491%        | High market activity  |
| Other                                   | 1,577        | 1,584         | 7            | 0%          |   |
|   | <b>3,320</b> | <b>10,282</b> | <b>6,962</b> | <b>210%</b> |   |
| <b>Market Data Licensing</b>            |              |               |              |             |   |
| Professional user licence subscriptions | 3,533        | 3,745         | 212          | 6%          | 9% increase in users  |
| Non-professional users                  | 380          | 905           | 525          | 138%        | Increased retail participation in US equity markets                 |
| Internal, derived and data services     | 860          | 1,118         | 258          | 30%         | User growth and price increases                                     |
| Other                                   | 1,971        | 2,130         | 159          | 8%          | User growth, new products   |
|   | <b>6,745</b> | <b>7,899</b>  | <b>1,154</b> | <b>17%</b>  |   |
| <b>Corporate Services</b>               |              |               |              |             |   |
| OTCQX                                   | 2,304        | 2,903         | 599          | 26%         | Higher sales from H220, strong calendar renewals and price increase |
| OTCQB                                   | 3,046        | 3,442         | 396          | 13%         | Higher sales from H220, strong renewals and price increase          |
| Virtual Investor Conferences            | 99           | 282           | 183          | 184%        | More events/participants  |
| Other                                   | 1,090        | 1,268         | 178          | 16%         |   |
|   | <b>6,539</b> | <b>7,895</b>  | <b>1,356</b> | <b>21%</b>  |   |

Source: OTCM, Edison Investment Research. Note: Subdivisional absolute numbers are mainly calculated from absolute and percentage changes given in the Q121 report and are therefore approximate.

Exhibit 4 shows changes in operating expenses between Q120 and Q121. As noted earlier, the main drivers of the 22% change were increases in compensation and professional and consulting costs. The former reflected variable compensation and base salary increases and the latter OTC Link ECN clearing and regulatory costs.

#### Exhibit 4: Analysis of operating expenses

|  | Q120          | Q121          | Absolute change | % change    | Comments   |
|--|---------------|---------------|-----------------|-------------|--|
| Compensation and benefits                  | 7,487         | 8,946         | 1,459           | 19.5        | Headcount and salary increases + higher commissions related to OTCQX and OTCQB sales |
| IT infrastructure and information services | 1,533         | 1,638         | 105             | 6.8         | Incremental data centre and network costs to support ECN growth                      |
| Professional and consulting fees           | 490           | 1,242         | 752             | 153.5       | Higher ECN clearing/regulatory costs with volume + support costs for VIC business    |
| Marketing and advertising                  | 242           | 205           | (37)            | (15.3)      | Lower travel and entertainment spend   |
| Occupancy costs                            | 557           | 613           | 56              | 10.1        | Higher real estate taxes allocated   |
| Depreciation and amortisation              | 414           | 444           | 30              | 7.2         | Previous investment related to new HQ and two data centres                           |
| General, administration and other          | 259           | 289           | 30              | 11.6        | Higher payment processing fees and bad debt expenses                                 |
| <b>Total</b>                               | <b>10,982</b> | <b>13,377</b> | <b>2,395</b>    | <b>21.8</b> |  |

Source: OTC Markets Group, Edison Investment Research

Exhibit 5 sets out operating and related revenue data showing year-on-year and quarter-on-quarter changes. OTC Link data shows substantial increases in trading volumes in line with US equity markets generally and the growth in number of ECN subscribers. For Corporate Services, analysis of the growth in OTCQX and OTCQB client numbers has been shown above. Within Market Data Licensing, the rise in non-professional market data subscribers is striking and reflects the increase in retail investor activity seen in recent periods. Historically the number of non-professional subscribers has been quite volatile, and it remains to be seen how a normalisation in equity market activity levels affects user demand. The reduction in the revenue per terminal metric reflects the lower revenue generated by non-professional users.

#### Exhibit 5: Operating and related revenue data

|   | Q120   | Q420   | Q121    | % change y-o-y | % change q-o-q |
|---|--------|--------|---------|----------------|----------------|
| <b>OTC Link</b>                             |        |        |         |                |                |
| Dollar volume traded                        |        |        |         |                |                |
| OTCQX                                       | 21,572 | 34,082 | 77,599  | 259.7          | 127.7          |
| OTCQB                                       | 4,684  | 9,468  | 17,062  | 264.2          | 80.2           |
| Pink  | 91,427 | 82,828 | 134,063 | 46.6           | 61.9           |
| Number of securities quoted                 | 10,828 | 11,758 | 12,091  | 11.7           | 2.8            |
| Number of active ATS participants           | 82     | 84     | 82      | 0.0            | (2.4)          |
| Number of ECN subscribers                   | 61     | 73     | 82      | 34.4           | 12.3           |
| New form 211 filings                        | 75     | 154    | 197     | 162.7          | 27.9           |
| Revenue per security quoted (\$)            | 307    | 433    | 850     | 177.3          | 96.2           |
| <b>Corporate Services</b>                   |        |        |         |                |                |
| Number of corporate clients (period end)    |        |        |         |                |                |
| OTCQX                                       | 414    | 461    | 482     | 16.4           | 4.6            |
| OTCQB                                       | 893    | 902    | 962     | 7.7            | 6.7            |
| Pink  | 689    | 742    | 789     | 14.5           | 6.3            |
| Total                                       | 1,996  | 2,105  | 2,233   | 11.9           | 6.1            |
| Revenue per client (\$)                     | 3,205  | 3,537  | 3,640   | 13.6           | 2.9            |
| Graduates to a national securities exchange | 16     | 22     | 29      | 81.3           | 31.8           |
| <b>Market Data Licensing</b>                |        |        |         |                |                |
| Market data professional users              | 22,437 | 23,463 | 24,404  | 8.8            | 4.0            |
| Market data non-professional users          | 11,694 | 20,673 | 27,814  | 137.8          | 34.5           |
| Revenue per terminal (total - \$)           | 198    | 167    | 151     | (23.5)         | (9.3)          |
| Market data compliance file users           | 41     | 45     | 46      | 12.2           | 2.2            |

Source: OTCM, Edison Investment Research

OTCM continues with its plans to operate a third ATS, **OTC Link NBQ** alongside OTC Link ATS and OTC Link ECN. The two existing platforms are complementary, with OTC Link ATS providing a network to publish quotes and to facilitate trades between subscribers, while OTC Link ECN operates an anonymous matching engine and acts as an order router, functioning as the execution

party on an agency basis. Subject to Securities and Exchange Commission (SEC) approval, OTC Link NBQ will provide alternative functionality to broker dealers enabling electronic matching and execution, but with full disclosure rather than anonymity and allowing distribution of full depth of book data rather than top of book alone as at OTC Link ECN. OTCM hopes to launch OTC Link NBQ before the release of its Q221 results (early August).

On **regulatory developments**, OTCM continues to focus on its response to the SEC's final rule amending Exchange Act **Rule 15c2-11**. This has a compliance date of 28 September this year. As a reminder, Rule 15c2-11 deals with information requirements before quotes may be published on interdealer quotation systems such as OTC Link ATS. Positively, the amended rule recognises OTCM markets' disclosure standards and OTC Link ATS is permitted to act as a qualified interdealer quotation system (IDQS) reviewing disclosure to determine whether a security is eligible for public quoting. This will enable it to streamline onboarding of securities to OTCM's markets, removing the risk and administrative burden of certifying the suitability of securities for quotation from broker dealers, which in turn will allow them to focus on their financial advisory role. OTCM notes that it does not expect the disclosure rules for companies on its OTCQX, OTCQB and Pink Current and Limited Information tiers will change materially. In December the SEC published a proposed exemptive order that would, subject to approval, allow OTC Link to operate an Expert Market for companies that do not meet the information requirements allowing sophisticated or professional investors to continue to trade in the securities.

The initial phase of **Consolidated Audit Trail (CAT)** obligations for OTC trading began in June 2020 with subsequent obligations taking effect this year, beginning in April. The prospective costs for firms such as OTC Link LLC and other FINRA broker dealer members to fund the database of trading activity have yet to be established but OTCM does not expect the impact to be material in FY21.

OTCM continues to work towards increasing regulatory recognition for its markets including the number of states granting **Blue Sky** recognitions for OTCQX and OTCQB (unchanged at 37 and 33 respectively).

## Background and outlook

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While its Q121 results were strongly influenced by the surge in trading volume in US equities, OTCM has reiterated its three strategic priorities for 2021 as:

1. Successful implementation of Amended Rule 15c2-11 including seeking exemptive relief for an Expert Market. OTCM sees the amended rule as a significant shift for the group moving it from being a provider of ATS platforms to being recognised as setting the standard for monitoring the level of disclosure, compliance and governance of OTC companies. The group will devote significant resources to implementation, but the net financial impact (positive or negative) is not yet clear and will depend on any relief received from the SEC.
2. Remaining focused on the reliability of trading systems and enhancing their functionality for traders. The group has invested over time in these systems and the level of capital spending is likely to be consistent with that seen in 2020.
3. Continued support for OTCQX and OTCQB issuers. This will include enabling efficient interaction with shareholders, providing an efficient onboarding process for new clients and maintaining high service levels.

Our first background table shows recent performance from a selection of equity indices (Exhibit 6). All have shown positive moves over the periods greater than three months, reflecting the recovery in market levels as they looked forward to implementation of countermeasures to the pandemic. The OTCQB and TSX venture indices have shown strength relative to the other indices over 12

months, perhaps reflecting a rotation towards smaller cap and more economically sensitive sectors. The OTCQX index has shown a performance profile more in line with the Nasdaq Composite, albeit with a positive three-month performance.

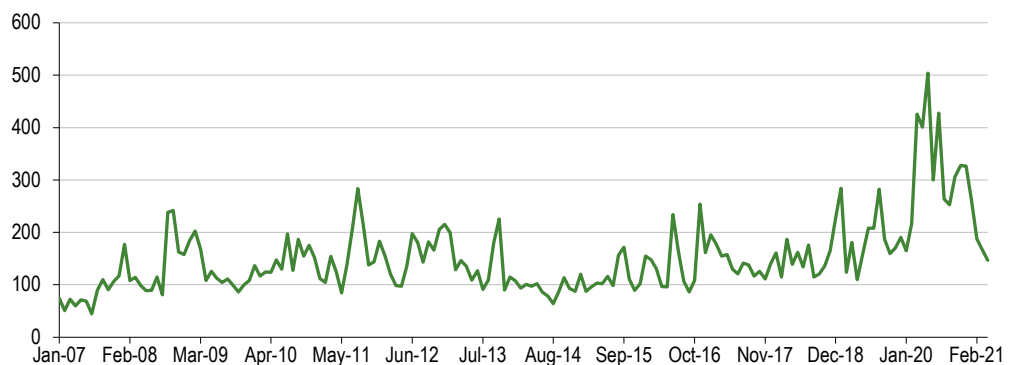
**Exhibit 6: Recent market index performance (%)**

| Period       | S&P 500 | Nasdaq Composite | OTCQX Composite | OTCQB Venture | S&P TSX Venture |
|--------------|---------|------------------|-----------------|---------------|-----------------|
|              | US\$    | US\$             | US\$            | US\$          | C\$             |
| 3 months     | 8.3     | -1.6             | 6.3             | -8.2          | -10.3           |
| 6 months     | 19.2    | 26.7             | 27.9            | 50.1          | 30.2            |
| 1 year       | 44.5    | 50.8             | 50.0            | 90.1          | 94.1            |
| Year to date | 12.7    | 6.7              | 9.7             | 19.4          | 9.1             |

Source: Bloomberg. Note: Priced on 7 May 2021.

The Economic Policy Uncertainty [Index](#) (Exhibit 7) is included as an indicator of the environment for investor and corporate decision-making. The index component selected here reflects daily newspaper coverage related to economic uncertainty and shows the substantial impact of the pandemic compared with the global financial crisis, for instance. The index has subsequently moved significantly lower and now stands at a level within the range seen prior to the pandemic suggesting a more settled background for investor and corporate decisions.

**Exhibit 7: US Economic Policy Uncertainty Index (newspaper-based, monthly)**



Source: 'Measuring Economic Policy Uncertainty' by Scott Baker, Nicholas Bloom and Steven J. Davis at [www.policyuncertainty.com](http://www.policyuncertainty.com) (CC BY 4.0)

Given the impact of trading activity on recent results, Exhibit 8 is included, showing an index of the average daily volume of US equity share trading. This shows two spikes in early 2020 and from the end of 2020 to Q121. In line with OTCM's commentary, this appears to have begun normalising in April.

**Exhibit 8: US equity share trading (consolidated monthly average daily volume)**



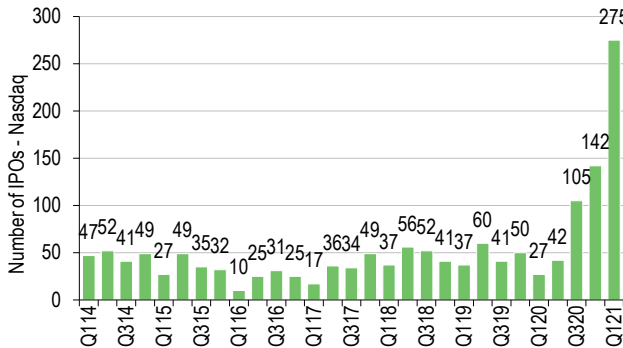
Source: Nasdaq, Edison Investment Research

The trends in numbers of IPOs on the Nasdaq, TSX and TSX Venture exchanges are shown in Exhibits 9 and 10. Reflecting more favourable market conditions, the number of IPOs on Nasdaq



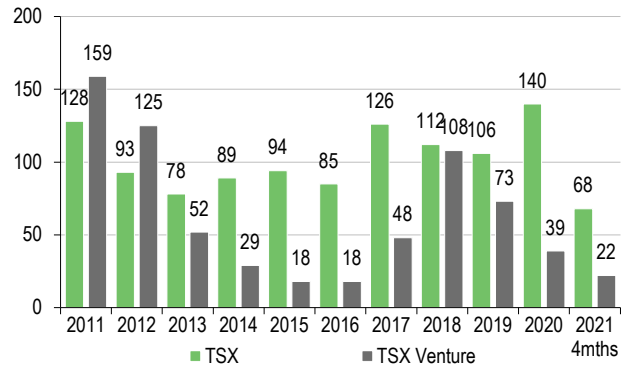
has bounced strongly with the Q121 number of IPOs substantially ahead of the already increased levels seen in Q320 and Q420. TSX IPOs for the first four months of 2021 were up 38% by number compared with the same period in 2020 and the TSX Venture exchange saw an 83% increase.

**Exhibit 9: Nasdaq – number of IPOs**



Source: Nasdaq

**Exhibit 10: TSX and TSX Venture – number of IPOs**



Source: TMX

Looking at the trend in the number of corporate client additions for OTCM shown earlier in Exhibit 2, the Q121 figures mirrored the favourable movement shown in IPOs above and OTCM indicates that this has continued into the current quarter with a good pipeline of potential clients also in place.

For OTC Link, the high level of trading seen in Q121 may not be sustained, with signs of normalisation already evident, but, on a longer view, OTCM will continue to work on attracting new subscribers and adding additional functionality as exemplified by the proposed launch of OTC Link NQB.

Market Data Licensing may be affected by a reduction in non-professional subscribers in due course if market activity levels do normalise, but professional subscribers have historically proven more resilient and efforts to develop the product offering continue, with a focus on compliance products.

## Financials

Headline figures from our revised estimates are shown in Exhibit 11 with further detail, including the divisional breakdown of revenues, shown in the financial summary (Exhibit 13). Following the very strong start to the year, our group revenue estimate for 2021 is increased by 17%, including a 65% increase in the estimate for OTC Link, reflecting its first quarter performance followed by the assumption of a progressive normalisation of activity levels. We continue to assume a significant normalisation (-40%) in revenue for the division in 2022. For Corporate Services the increased rate of corporate client net additions has prompted an increase in our estimates (to 18% and 10% for 2021 and 2022) though we do not assume client additions continue at the same rate. Our revenue growth assumptions for Market Data Licensing (10% and -7% for 2021 and 2022) are tempered by the thought that moderation in market trading levels could affect non-professional subscription levels, particularly in 2022. Uncertainty on this point together with the outlook for trading activity levels in US equities should be considered when viewing our estimates. Transaction related expenses have been increased in tandem with related revenue, but changes in assumptions for other expenses are smaller, resulting in an increase in our diluted EPS estimate for 2021 of 23% while for 2022 the increase is only 2%, reflecting the comments about normalisation above.

**Exhibit 11: Estimate revisions**

|       | Gross revenue (\$m) |      |            | PBT (\$m) |      |            | Diluted EPS (\$) |      |            | Dividend (\$) |      |            |
|-------|---------------------|------|------------|-----------|------|------------|------------------|------|------------|---------------|------|------------|
|       | Old                 | New  | Change (%) | Old       | New  | Change (%) | Old              | New  | Change (%) | Old           | New  | Change (%) |
| 2021e | 73.6                | 85.9 | 16.7       | 23.1      | 28.6 | 23.8       | 1.57             | 1.93 | 22.9       | 1.25          | 1.25 | 0.0        |
| 2022e | 76.3                | 77.7 | 1.9        | 25.0      | 25.6 | 2.4        | 1.69             | 1.73 | 2.4        | 1.35          | 1.35 | 0.0        |

Source: Edison Investment Research. Notes: Dividends include the special dividend of 65c announced for FY20 and estimates of 65c for FY21 and 75c for FY22. FY20 figures show our estimate under old and actual under new.

OTCM's balance sheet remains strong, with no debt and cash of \$33.5m or \$35.1m including restricted cash. Operating cash flow for Q121 was \$3.6m, of which \$0.2m was allocated to capital expenditure, \$1.8m to dividends and \$1.5m to purchases of treasury stock; other items totalling \$0.3m left a \$0.2m outflow. In addition to the cash held, OTCM has an undrawn line of credit of up to \$1.5m available.

## Valuation

An updated version of our comparative P/E table is shown in Exhibit 12. This includes information providers MSCI and Markit together with the average multiples for global exchanges. OTCM shares are trading on a prospective P/Es below the average for global exchanges for 2021, but slightly above the average for 2022, reflecting the normalisation of trading we have factored into our estimate for that year. The shares trade on markedly lower P/Es than the those for information providers. While the multiple applied to prospective earnings may be limited by the relative illiquidity of OTCM shares, the group is financially strong and has a high proportion of subscription-based revenues.

**Exhibit 12: OTCM comparative multiples**

|                               | P/E ratios (x) |             |
|-------------------------------|----------------|-------------|
|                               | 2021e          | 2022e       |
| MSCI                          | 50.5           | 45.0        |
| Markit                        | 33.8           | 30.3        |
| Average information providers | 42.2           | 37.6        |
| Average global exchanges      | 25.9           | 23.7        |
| <b>OTCM</b>                   | <b>21.7</b>    | <b>24.3</b> |

Source: Refinitiv, Edison Investment Research. Note: Prices as at 7 May 2021.



**Exhibit 13: Financial summary**

| \$ 000s                                    | 2016     | 2017     | 2018     | 2019     | 2020     | 2021e    | 2022e    |
|--|----------|----------|----------|----------|----------|----------|----------|
| Year end 31 December                       |          |          |          |          |          |          |          |
| <b>PROFIT &amp; LOSS</b>                   |          |          |          |          |          |          |          |
| OTC Link                                   | 10,573   | 10,074   | 11,175   | 11,676   | 15,890   | 23,082   | 13,849   |
| Market Data Licensing                      | 21,054   | 21,922   | 23,384   | 24,447   | 28,133   | 30,799   | 28,643   |
| Corporate Services                         | 19,254   | 22,660   | 24,719   | 26,716   | 27,206   | 32,061   | 35,198   |
| Revenue                                    | 50,881   | 54,656   | 59,278   | 62,839   | 71,229   | 85,942   | 77,690   |
| Re-distribution fees and rebates           | (2,317)  | (2,480)  | (2,448)  | (2,489)  | (2,810)  | (2,962)  | (2,864)  |
| Net revenue                                | 48,564   | 52,176   | 56,830   | 60,350   | 68,419   | 82,980   | 74,826   |
| Transaction-based expenses                 | 0        | 0        | (375)    | (746)    | (3,022)  | (6,157)  | (1,939)  |
| Revenues less transaction-based expenses   | 48,564   | 52,176   | 56,455   | 59,604   | 65,397   | 76,823   | 72,887   |
| Operating expenses                         | (30,032) | (32,511) | (35,768) | (40,230) | (42,202) | (46,505) | (45,515) |
| EBITDA                                     | 18,532   | 19,665   | 20,687   | 19,374   | 23,195   | 30,318   | 27,372   |
| Depreciation                               | (1,606)  | (1,361)  | (1,042)  | (1,492)  | (1,761)  | (1,779)  | (1,796)  |
| Operating profit                           | 16,926   | 18,304   | 19,645   | 17,882   | 21,434   | 28,539   | 25,576   |
| Net interest                               | 9        | 47       | 116      | 103      | (27)     | 40       | 40       |
| Profit Before Tax                          | 16,935   | 18,351   | 19,761   | 17,985   | 21,407   | 28,579   | 25,616   |
| Tax  | (6,407)  | (5,792)  | (3,524)  | (3,043)  | (3,133)  | (5,416)  | (4,867)  |
| Profit after tax                           | 10,528   | 12,559   | 16,237   | 14,942   | 18,274   | 23,164   | 20,749   |
| Profit after tax and allocation to RSAs    | 10,252   | 12,241   | 15,840   | 14,588   | 17,839   | 22,729   | 20,314   |
| Average Number of Shares Outstanding (m)   | 11.3     | 11.6     | 11.6     | 11.7     | 11.6     | 11.8     | 11.8     |
| EPS - basic (c)                            | 92.4     | 109.9    | 140.8    | 128.4    | 156.4    | 198.9    | 177.7    |
| Fully diluted EPS (c)                      | 90.4     | 105.8    | 136.3    | 124.7    | 153.4    | 193.2    | 172.6    |
| Dividend per share (c)                     | 116.0    | 116.0    | 123.0    | 125.0    | 125.0    | 125.0    | 135.0    |
| EBITDA Margin (%)                          | 38       | 38       | 36       | 32       | 34       | 37       | 37       |
| Operating profit margin (%)                | 35       | 35       | 35       | 30       | 31       | 34       | 34       |
| <b>BALANCE SHEET</b>                       |          |          |          |          |          |          |          |
| Non-current assets                         |          |          |          |          |          |          |          |
| Intangible assets                          | 291      | 362      | 312      | 291      | 291      | 299      | 309      |
| Property and other                         | 3,267    | 3,506    | 4,584    | 25,034   | 22,414   | 20,428   | 18,566   |
| Current assets                             |          |          |          |          |          |          |          |
| Debtors                                    | 6,262    | 6,450    | 4,942    | 5,157    | 6,609    | 9,500    | 9,500    |
| Cash & cash investments                    | 25,034   | 23,683   | 28,813   | 28,217   | 33,733   | 40,909   | 50,942   |
| Other current assets                       | 1,789    | 2,316    | 2,998    | 1,656    | 1,763    | 1,478    | 1,478    |
| Current liabilities                        |          |          |          |          |          |          |          |
| Deferred revenues                          | (14,664) | (15,531) | (16,070) | (15,815) | (18,765) | (20,920) | (22,966) |
| Other current liabilities                  | (5,372)  | (5,644)  | (6,711)  | (9,574)  | (11,232) | (8,336)  | (8,336)  |
| Long-term liabilities                      |          |          |          |          |          |          |          |
| Tax, rent and other                        | (1,101)  | (1,351)  | (2,459)  | (17,293) | (15,267) | (14,043) | (12,688) |
| Net assets                                 | 15,506   | 13,791   | 16,409   | 17,673   | 19,546   | 29,315   | 36,806   |
| NAV per share (\$)                         | 1.36     | 1.21     | 1.42     | 1.52     | 1.67     | 2.50     | 3.14     |
| <b>CASH FLOW</b>                           |          |          |          |          |          |          |          |
| Net cash flow from operating activities    | 15,740   | 16,483   | 22,590   | 21,413   | 26,013   | 24,677   | 27,142   |
| Capital expenditure, intangible investment | (415)    | (1,165)  | (549)    | (5,516)  | (1,034)  | (1,005)  | (1,300)  |
| Dividends                                  | (13,059) | (13,262) | (14,195) | (14,560) | (14,610) | (14,654) | (15,808) |
| Purchase of treasury stock                 | (1,714)  | (2,176)  | (1,047)  | (1,390)  | (3,520)  | (1,522)  | 0        |
| Financing / investments                    | 557      | (1,231)  | (1,669)  | (543)    | (1,333)  | (320)    | 0        |
| Net cash flow                              | 1,109    | (1,351)  | 5,130    | (596)    | 5,516    | 7,176    | 10,034   |
| Opening net (debt)/cash                    | 23,925   | 25,034   | 23,683   | 28,813   | 28,217   | 33,733   | 40,909   |
| Closing net (debt)/cash                    | 25,034   | 23,683   | 28,813   | 28,217   | 33,733   | 40,909   | 50,942   |
| Cash and restricted cash                   | 25,244   | 24,375   | 30,534   | 29,778   | 35,297   | 42,473   | 52,506   |

Source: OTC Markets Group annual reports, Edison Investment Research

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