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MarketAxess Holdings' (MKTX) CEO Rick McVey on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-23-19 Earnings Summary

Press Release SEC *10-Q* *Slides*

EPS of $1.42 beats by $0.04 | Revenue of $131.6M (29.73% Y/Y) beats by $1.6M

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MarketAxess Holdings, Inc. (NASDAQ:MKTX) Q3 2019 Earnings Conference Call October 23, 2019 10:00 AM ET

Company Participants

Dave Cresci – Investor Relations Manager

Rick McVey – Chairman and Chief Executive Officer

Chris Concannon – President and Chief Operating Officer

Tony DeLise – Chief Financial Officer

Conference Call Participants

Dan Fannon – Jefferies

Richard Repetto – Sandler O'Neill

Jeremy Campbell – Barclays

Kyle Voigt – KBW

Chris Allen – Compass Point

Hugh Miller – Buckingham Research

Chris Shutler – William Blair

Patrick O'Shaughnessy – Raymond James

Operator

Ladies and gentlemen, thank you for standing by. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session. [Operator Instructions] As a reminder, this conference is being recorded October 23, 2019.

I would now like to turn the call over to Dave Cresci, Investor Relations Manager at MarketAxess. Please go ahead, sir.

Dave Cresci

Good morning and welcome to the MarketAxess third quarter 2019 conference call. For the call, Rick McVey, Chairman and Chief Executive Officer, will review the highlights for the quarter; Chris Concannon, President and COO, will discuss new initiatives in automation; 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 beliefs 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 risk 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, 2018. I would also direct you to read the forward-looking statement disclaimer in our quarterly earnings release, which was issued earlier this morning and is now available on our website.

Now let me turn the call over to Rick.

Rick McVey

Good morning and thank you for joining us to discuss our third quarter 2019 results. This morning we reported record financial results driven by broad-based volume and market share gains across products and regions. Total fully electronic trading volume reached a new record of $529 billion, up 37% year-over-year compared to Q3 2018. Open Trading volume was up 61% to $142 billion. Our growth in trading activity outside of the U.S. also accelerated with international volumes of $160 billion, up 59% year-over-year.

Estimated U.S. high-grade market share also reached a new record of 20.2% in the quarter. Third quarter revenues were a record $132 million, up 30% from the prior year. Operating income for the quarter was up 42% to $66 million. Operating margins expanded to over 50% and diluted EPS was up 39% to $1.42.

Last week we announced the addition of Justin Gmelich to our Board of Directors. Justin was most recently Chief Operating Officer for fixed income, currencies and commodities at Goldman Sachs, and prior to that he was the Global Head of Credit. We are thrilled to add his experience and strategic advice to our Board.

Slide 4 highlights market conditions. Market conditions were mixed during the quarter. Credit spreads over treasuries remained relatively flat and credit spread volatility during the quarter was up modestly. Interest rates around the world continued to decline on the back of central bank monetary policy easing. New issue activity was robust with high-grade issuance up 14% versus the third quarter of last year. TRACE market volumes were healthy during the quarter with high-grade TRACE volume up 10% and high-yield TRACE volume up 19%. Fee capture improvement during the quarter was driven by longer average maturities and higher duration in high-grade and a favorable mix shift in the other product category.

Slide 5 provides an update on Open Trading. Open Trading volume reached new records in the quarter of $142 billion, up 61% year-over-year. Open Trading now represents 27% of our total volume, up from 23% a year ago. Open Trading volumes grew strongly in all product areas, most notably in emerging markets, where Open Trading volumes were up 143% year-over-year. Over 348,000 Open Trading transactions were completed in the third quarter, up from 283,000 in Q3 2018.

Dealers are increasingly using Open Trading to both provide liquidity and to reduce risk as liquidity takers. As a result, our dealer to dealer average daily volume grew to $480 million, up 89% year-over-year. By seamlessly connecting global participants in an all-to-all marketplace, Open Trading is creating new trading opportunities and reducing transaction costs. Liquidity takers saved an estimated $61 million in transaction costs through Open Trading, up 72% from the third quarter last year. In addition, we estimate that liquidity providers saved an estimated $50 million in the quarter, up 49%. The combination of transaction cost savings and improved trading efficiency is the cornerstone of our value proposition for dealer and investor clients.

Now, let me turn the call over to Chris to provide an update on new initiatives and trading automation.

Chris Concannon

Thank you, Rick. Slide 6 outlines our new business initiatives. While our growth trajectory continues, we are focused on building sustainable long-term growth opportunities. I'd like to highlight several of those initiatives today.

Last week we launched Live Markets with a pilot group of investor and dealer clients, and we are starting to see early interest in this new protocol. It's clear that different trading styles are required for more liquid and newly issued corporate bonds. This coupled with the growing adoption of automated trading strategies underscores the need for a protocol that offers live order-driven liquidity for both investors and dealers. We are also actively building new portfolio trading capabilities, which is an enhancement to our existing list trading capabilities. Our portfolio trading solution which we expect to launch next month will support the growth in trading large fixed income portfolios, including unique customized portfolios, as well as the creation or redemption of fixed income ETFs.

Our award-winning Composite pricing engine is also supporting the launch of our joint – jointly developed eNAV product, which is part of our partnership with Virtu. The combination of Virtu's fair value calculation tool for ETFs with our proprietary fixed income market data has brought real-time price evaluation to the market for fixed income ETFs. This data product which has interest across the ETF trading community ultimately brings more participants into the fixed income ETF ecosystem.

In August, we announced the planned acquisition of LiquidityEdge, a leading U.S. treasuries trading venue. This acquisition brings streaming treasury liquidity and trading capabilities to MarketAxess. While LiquidityEdge primarily serves the interdealer treasury market today, our dealers see a strategic opportunity to grow the business by building custom dealer to client connections, which we hope to launch in the first half of 2020. In addition to the ability to trade U.S. treasuries on MarketAxess, the acquisition also supports the further expansion of our treasury hedging capabilities, with the first phase of these enhancements set for launch later this quarter. We now have all the necessary regulatory approvals and expect to close the LiquidityEdge acquisition in the coming weeks.

Slide 7 demonstrates the growing momentum of automation in our market. Institutional investors and dealers are increasingly demanding trading tools that allow them to work more efficiently while achieving transaction cost savings. Our automated trading tools backed by our AI powered pricing data is helping them to achieve both, low-touch trading combined with attractive cost savings.

Investor adoption of our Auto-Ex functionality continues to grow rapidly with 63 firms now actively using our automated functionality this quarter, up from 28 the prior year. Over a 115,000 our Auto-Ex trades took place in the third quarter up 96% year-over-year, and over 22 billion in volume was conducted via our Auto-Ex up 156% year-over-year. The use of dealer algorithms is also experiencing growth with approximately 2.3 million algo responses in Q3, a 61% increase year-over-year.

We’re continuing to invest in our automated trading functionalities by developing a new liquidity provisioning solution. Our new autoresponder tool will allow investors to automatically respond to request for liquidity via anonymous, Open Trading marketplace based on a set of predefined rules and criteria. Portfolio managers and their traders will be able to automatically monitor and react to unique pricing opportunities across their portfolios. Thus, enhancing transaction costs savings for all investors. We expect this new enhancement to launch next month.

Now let me turn the call over to Tony to discuss the financials in more detail.

Tony DeLise

Thank you, Chris. Please turn to Slide 8 for summary of our trading volume across product categories. Overall trading volume was up 37% as we experienced significant year-over-year growth and active clients, market share and market volumes across each of our core four trading products. Our U.S. high-grade volumes were up 27% year-over-year to $262 billion for the quarter on a combination of a 2.7 percentage point increase in estimated market share and higher U.S. high-grade TRACE volumes.

Our other credit category trading volumes were up 53% year-over-year on a combination of higher estimated market volumes and gains in estimated market share. Our trading volume in emerging markets, U.S. high yield and European corporate bonds were each more than 50% higher than the prior year. Similar to the second quarter, the inquiry mix during the third quarter favored client buying.

Our investment in municipal bond trading is also showing dividends. Trading volume grew to $2.3 billion in the third quarter, up 77% year-over-year based on participation from 225 investor clients and 70 dealer clients. Open Trading is also a meaningful liquidity source and driving transaction cost savings and represents almost half of our municipal bond volume. Realizing that it is early in Q4, and there are seven important trading days remaining in this month. October market volumes look similar to third quarter levels and October U.S. high-grade and high yield market share are currently running below third quarter 2019 levels.

On Slide 9, we provide a summary of our quarterly earnings performance. Overall revenue was a record $132 million up 30% year-over-year. The 37% increase in trading volume resulted in a 32% uplifting commissions. Information services revenue was up 7% and on a constant currency basis up 11%. Post-trade services revenue was up 9% and on a constant currency basis up 17%. Expenses were up 19%, and operating income was up 42% year-over-year. Operating margin was up 4.3 percentage points and reached 50% in the third quarter. The effective tax rate was 19.8% in the third quarter and 20.9% on a year-to-date basis. We expect our effective tax rate for full year 2019 will be near the lower end of our guidance range of 20.5%. Our diluted EPS was a record $1.42, the increase in our average share price during the quarter accounted for the rise and the diluted share count.

On Slide 10, we have laid out our commission revenue, trading volumes and fees per million. Total variable transaction fees were up 46% year-over year, driven by the 37% increase in trading volume and an increase in the overall fee capture rate. Our U.S. high-grade fee capture can vary quarter-to-quarter due to variety of factors including duration and trade size. U.S. high-grade fee per million was up $11 from the second quarter level, due to the favorable impact on duration from lower yields and longer years to maturity. Our other credit category fee per million increased by $6 on a sequential basis, resulting from a heavier weighting in trading volume attributable to high yield and emerging market bonds. Fee capture at the individual product level was unchanged sequentially.

Slide 11 provides you with the expense detail. On a year-over-year basis, expenses were up 19% for the quarter, and up 16% year-to-date. Compensation and benefits accounted for more than 60% of the absolute change and expenses for both the quarter and year-to-date, as we continue to add personnel to support our growth initiatives. Our year-over-year increase in headcount of 67, higher stock-based compensation expense and higher variable bonus provision were the main contributors to the rise in compensation and benefits.

We expect that full year 2019 expenses. We'll end up near the high end of the expense guidance range of $256 million. The expense guidance includes roughly $1.5 million for acquisition related transaction costs but excludes the post acquisition impact of the liquidity as transaction. We recently kicked off the 2020 budget process, so it's a little early to talk about an expense guidance range for next year.

That said, I'd like to point out two items. First, the step function increase in expense associated with the senior hires added in 2019 is not expected to repeat in 2020. And second, we will need to overlay the LiquidityEdge, operating expenses and deal-related intangible asset amortization expense into the 2020 guidance. LiquidityEdge's operating expenses in the third quarter were approximately $4 million with roughly 50% of those expenses tied directly to trading volume and revenue.

On Slide 12, we provide balance sheet information. Cash and investments as of September 30th were $556 million, and trailing 12 months free cash flow reached the record $216 million. During the quarter, we paid the quarterly cash dividend of $19 million and also repurchased 7,500 shares under our share buyback program. Just a quick reminder, that the LiquidityEdge purchase price is $150 million, including $100 million in cash and $50 million in stock. We are funding the cash portion more readily available cash position. Based on the third quarter results, our Board has approved at $0.51 regular quarterly dividend.

Now let me turn the call back to Rick for some closing comments.

Rick McVey

Thank you, Tony. The results from the third quarter demonstrate great progress in moving the credit markets forward through increased trading automation and global trading connectivity. Open Trading is creating new trading opportunities for all market participants and driving down transaction costs. In addition to growing momentum in our core products, we are excited about the potential and the expanded slate of new opportunities. U.S. treasuries, municipal bonds, portfolio trading, and Live Markets all demonstrate our investment in new and large areas for future growth.

Now we would be happy to open the line for your questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Our first question comes from Dan Fannon of Jefferies. Your line is open.

Dan Fannon

Thanks. Good morning. I guess, if you could talk about the new initiatives you have several in place that are either started or slated to come online. Can you talk about in terms of contribution for, kind of, 2020, what you think could have the biggest impact, incrementally?

Chris Concannon

Well, we mentioned a number of new initiatives, some obviously feeding our core business, like portfolio trading; some feeding our market data business, like eNAV and data products. I would say, LiquidityEdge is probably the most exciting opportunity given it's the largest market in the fixed income arena and one we really don't offer today. So having the LiquidityEdge acquisition close these coming weeks and then making available our clients a dealer solution sometime in the first half of next year is an exciting addition to our current offering of corporate bonds across our largest clients.

So I'd say that the LiquidityEdge acquisition and the opportunity to grow a sizeable rates footprint is what we're most excited about. But that said, we've got a lot of new initiatives. If you look at our municipal opportunities that Rick mentioned, that's a wonderful opportunity. We had record volume in August of $1.2 billion, and obviously, a broad set of clients joining our opportunity in munis.

Operator

Thank you. Our next question comes from Richard Repetto of Sandler O'Neill. Your line is open.

Richard Repetto

Yes. Good morning, Rick and Chris and Tony. I have one question, but it might have two parts.

Chris Concannon

Shocker, Rich.

Richard Repetto

Shocker. But it is about our favorite topic, automation. And I guess, one thing I just noticed the algo responses wrote Open Trading, and I guess the other, I guess, was in the automating when you just talked about all automation. The algo responses were down quarter-over-quarter, but the number of trades were up. And I'm just trying to see is this a more efficient, people getting better, what you call, responses to their – the fewer responses but more trades?

And then the bigger part that goes along with this, is this portfolio trading? There's a lot of people that think that's that the next big initiative and not to downplay LiquidityEdge, but as far as moving the corporate bond market more electronic, I guess, would you share that view that this portfolio trading could be the thing that really pushes the automation forward? And that's it.

Chris Concannon

Okay. So on the – above the algo execution trade volume, I think, really what we are seeing, Rich, is the adoption of our auto – current Auto-Ex solution is largely in the smaller trade size. So many of the large firms that have adopted Auto-Ex tend to target smaller ticket sizes to allow them to just automate that feature. It allows their traders on their desk to focus on larger, more complicated trades. So it's proven to be quite efficient tool for most of the trading desks that are deploying it.

With the algo responses, you're seeing – they're responding to an Auto-Ex smaller trade size. So you tend to see growth in the transaction volume and with less growth in the algos, if that makes sense. But we are seeing – if you think about our launch of Live Markets, that's a market that calls for live algo streams. So it's a – we'll be seeing much more activity in our algo streams as a result of Live Markets as streams start to join the market. So when you think about the automation of the overall market, we're offering multiple features, and we're just starting really that roll up.

The autoresponder that we talked about today is a key function to bring more of the investor interest into an automated feature. If you think about it today, we offer – Auto-Ex is allowing them to auto RFQ, requesting liquidity and you typically get algo responses to those Auto-Ex requests. Autoresponder allows them to actually respond to other RFQs that are in the market, using Open Trading the anonymous feature. So we expect to see higher growth rates of transaction volume as well as volume feeding through our entire auto functionality.

Rick McVey

Rich, I'll just jump in on the second one, but I agree with your thesis that portfolio trading has been growing and likely to continue to do so. And I really think it's an important part of the new market-making model that's showing early signs of increasing overall market turnover in credit trading. And it's sort of a four-part answer, but investors in certain situations are finding a more efficient means of transferring risk through portfolio trades with the dealer community. It is still a relatively small part of TRACE. We estimate 2% to 4% of TRACE volume but growing rapidly, and we want to be sure to have the solution in place for our clients, which we will roll out this quarter.

It's also important to remember that these portfolio trades create a lot of secondary activity around the tail risk that investors or dealers are trying to manage, and a lot of that we see. So the growth in portfolio trading is already been part of the growth that you're seeing in our volumes. But I think the other pieces that are improving turnover are the increase in all-to-all trading primarily through our Open Trading solution, which is bringing new participants into the market. And then also the adoption of the ETF share trading in a much bigger way by both dealers and investors is another way to move risk. So you really see this whole new risk-transfer model emerging that we are excited about because we think it will not only be healthy for our volumes but it also comes with the prospect of increasing market turnover.

Chris Concannon

And Rich, I would just add on our portfolio trading solution that we're launching next month. We'll be able to offer clients the ability to trade up to 1,500 bonds, which is unique. We also will allow them to market that to – up to five dealers. So it allows investors that are currently conducting portfolio trades in a less-than-efficient environment, some even e-mailing spreadsheets to conduct it in a much more efficient way and improve the pricing. We'll also be putting in front of our clients, our CP+ calculation. So they will be able to price their portfolio and really regulate the transaction costs of their portfolio trades going forward.

Operator

Thank you. Our next question comes from Jeremy Campbell of Barclays. Your line is open.

Jeremy Campbell

Thanks. So I remember weak volatility used to be a little bit of a headwind for you guys, but it's clearly picked up over the past year. So one question we keep hearing from clients is about the impact in the next year volatility settled down a little bit. Now I know this would really ignore like your new product capabilities and launches, like portfolio trading, net spotting, et cetera, but at a conceptual level is there a way to kind of untangle the year-over-year growth in volumes and market shares between some of the market-based tailwinds like widening spreads and revolve versus your organic initiatives, like the rise of algos and the increased use of Open Trading over the past year?

Rick McVey

Yes. I'll take the first bracket at that one, but this year, we – if you look back at the fourth quarter of last year, we had significant widening of spreads and higher volatility and we did exceptionally well on market share gains during that quarter. If you look at the totality so far in 2019, the trend has been for credit spreads to narrow. That is usually not the ideal market environment for our share gains, but we've managed to gain a significant amount of share across products in spite of that market environment.

And I do think you're right to point out that one of the risk is low volatility going into 2020, very difficult to predict and there are plenty of geopolitical and sector risks emerging that could change the volatility outlook in a hurry. But very low levels of interest rates and credit spreads for a prolonged period would be a risk to overall market volumes and market share. But we've been through so many different market environments over the years, and I think the consistent theme has been year-on-year market share gains that drive our revenue and earnings growth. So we're confident that we will continue to gain share in any market environment going into the new year.

Chris Concannon

And Rick, I would just add that we are adding to our portfolio the U.S. treasury market, which is certainly one of the largest fixed income markets on the planet and one that we don't offer our clients today. So in terms of organic growth opportunities if you hold market volumes constant, we're tapping into quite a large market with really a large competitor in

Bloomberg and their dealer-to-client solution in the rates market followed by another competitor in the client-to-dealer – the dealer-to-client market. So we have a huge market opportunity ahead of us with or without tailwinds.

Operator

Thank you. Our next question comes from Kyle Voigt of KBW. Your line is open.

Kyle Voigt

Hi, good morning. Maybe just one on Live Markets, and I know it's just launched a week ago, but can you talk about some maybe early client feedback? And maybe more importantly, are you seeing already kind of attractive quotes for those bonds being posted in that live order book?

And then kind of a second part to that is just wondering if you can talk about just in more details about where you landed on pricing for that offering? And what incentives there maybe for underwriters on new issues, for example?

Chris Concannon

Sure. Thanks for the question, Kyle. Pretty excited about the launch of Live Markets. There are a lot of people here at MarketAxess working long hours to make that product come to fruition just last week. A reminder, it's still in its pilot form, but we are excited about the activity that we're seeing. We're seeing daily trading activity on the platform, some great key factors. We're seeing two-sided pricing coming into the platform. We're also – we've seen new issue trades. Those are trades that we typically wouldn't see in a new issue.

We're also seeing clients using the hidden order or reserve functionality that we offer, which is a key feature for clients to site inside the market and rest without disclosing any size or price information. So very early days, but quite excited about the client feedback. And again, a reminder, it's still in its pilot form for the near-term. And Tony, do you want to cover the pricing?

Tony DeLise

Yes, I'll pick up on the pricing. So Kyle, you'll recall that, just generally speaking, when we set up these schedules, we're looking at bid-offer spread in most cases. And we expect the trading in Live Markets, it'll be the more liquid end of trading. It's larger trade sizes, typically with tighter bid-ask spread. Also remember, this is a – it's a liquidity take-or-pay or a markup model. This is – that's the model we think scales best. But the little difference here, the little twist, we are incorporating some incentives or rebates for liquidity providers. So it does look different than the other fee models we have in place.

The capture rates is going to be lower than what you see. The headline, U.S. high-grade fee per million and the capture rate, is going to be lower. It's tough to pinpoint, as Chris said, it's early days. We're less than a week into the launch here. But just remember, it's all additive revenue. I'm sure as the quarters go one, we'll have more to share on where the fee capture is landing. But again, right now, it'll be lower than that headline, U.S. high-grade capture rate.

Operator

Thank you. And our next question comes from Chris Allen of Compass Point. Your line is open.

Chris Allen

Good morning, guys. I just wanted to ask another query. You noticed – you noted strong market volumes and strong share gains. Can you just give us some color where the share gains are coming from? Is it further electronification into specific markets, taking basically share from the incoming dealers, while you are taking share from other electronic competitors in each of the buckets? Any color there would be helpful.

Rick McVey

Yes. I think if you look at high yield and EM in euros, there's a slightly different story in each one, but with high yield and EM, we think it's further adoption of electronic trading by investors and dealers, moving more business away from phone-based trading to electronic trading, which is great to see because those markets are still in early stages of electronification and they are kind of in low teens areas and plenty of growth runway still in front of us.

With euros, we're confident we're taking share from some of the other platforms in the region. There is certainly part of the story is further adoption of electronic trading, but I think, the combination of our Open Trading liquidity and the trading automation tools has really increased our market position in the European region. And remember, European clients are active with us in multiple products. So euros are only a piece of the story. We've done exceptionally well in EM with European clients, and we do see cross-regional activity in the U.S. credit as well. So really encouraged about the international story that's developing.

Chris Concannon

And Chris, I'll just add that the concept of moving liquidity away from dealers just doesn't happen on our platform. Really, what we're doing is, as Rick pointed out, converting more current volume between dealers and clients from the phone onto the platform where it's more efficient and more electronic for both parties. We're seeing dealers benefit from offering algo solutions and reducing their own costs while investors are feeling the expense pressures that they feel are able to reduce their cost as well. So we're seeing it as a net benefit for both dealer and client.

And more importantly, our OT solution is being adopted by both dealer and client. It has been a valuable source for dealers to a more liquidity in an anonymous way. So we're seeing benefits that are being delivered to both dealer and client through the adoption of the platform.

Operator

Thank you. Our next question comes from Hugh Miller of Buckingham Research. Your line is open.

Hugh Miller

Good morning. Thanks for taking my questions.

Rick McVey

Good morning, Hugh.

Hugh Miller

So wanted to start off, I guess, with some more color on Live Markets, and I appreciate what you guys did provide. Is the lower fee capture that you had mentioned kind of a function more of kind of the types of securities that would more likely to trade on Live Markets? Or is that more a function of just some of the early rebates that you are providing? And any color you could provide on just maybe the time horizon which that goes beyond pilot into kind of a more of a broader-based dissemination?

Tony DeLise

Yes. So Hugh, it's more of a function of the type of bonds. Again, think about how we set up our fee schedules. The bonds typically that tighter bid-ask spread, we charge less. And the community that we're going after here, it's new issue activity, it's the first several weeks after new issues come out. They typically have a tight bid-ask spread. It's the most active bonds, whether it's story bonds or benchmark bonds. Again, those typically are in larger trade sizes and trading a tighter bid-ask. So it's more reflective of that.

We do have some incentives in place and rebates in place, and that we're starting off to promote liquidity on the platform. We think it's the right thing to get Live Markets up and running. And let's see how we run here for a couple of quarters, but again, the expectation is based on the type of bonds that we see going to Live Markets. It will come at a lower capture rate.

Rick McVey

And just to add to that, Hugh, that remember this is a part of the market where historically our market share has been very low. So it's not a case where we're cannibalizing existing trading activity and market share for transitioning the Live Markets. These are newly issued bonds and benchmark bonds that trade in tight bid-offer and often trade in blocked trade sizes. So even though the fee capture is likely to be lower than what we observe in the rest of our RFQ protocol, it is added to revenue and it's designed to attack a part of the market where historically our share has been low, and we will commit to do what we always do. If Live Markets becomes a meaningful part of our volume, we will be transparent about the fee capture and the volume in that area, just like we are elsewhere.

Hugh Miller

That's very helpful. Thank you so much. And then just on the follow-up for – just some housekeeping items here. Any distribution fees changes that we should be thinking about as we roll into 4Q or early 2020? And then of the $1.5 million in deal costs that you mentioned about LiquidityEdge, can you just let us know how much of that was 3Q versus 4Q?

Tony DeLise

Sure. Happy to take both of those. So on the distribution fees – and we're always little bit cautious about giving guidance on distribution fees because we give dealers the choice of plans, and in most products we have couple of different choices and some of them have distribution fees, some of them are all variable. If it's all variable there are minimum fee commitments. So it's a little bit difficult to predict.

Looking out right now, we are not tracking anything of real substance in terms of movement looking up, but I caution on one thing, the bid swing is around unused minimum fees on plans where dealers have minimum monthly fee commitments. We report those unused minimum fees within distribution fees. It does vary period-to-period depending on activity. So I do caution again, we are not tracking anything of significance, going into Q4, but I do caution those unused minimum fees can move period-to-period.

Second part of the question on LiquidityEdge. I mentioned that the transaction cost for the full year are expected to be around $1.5 million, and that's included in our expense guidance range. So we're pointing you to the high end of the 2019 expense guidance range of $256 million inclusive of that $1.5 million. The majority of it came through in the first quarter. There's some residual as we get closer to the closing date. There's some valuation work that we're completing, but the large majority of that came through in the third quarter.

Operator

And our next question comes from Chris Shutler of – with William Blair. Your line is open.

Chris Shutler

Hey guys, good morning.

Rick McVey

Good morning, Chris.

Chris Shutler

Can you provide some more detail on the autoresponder tool? Maybe give an example or two of how a client might use that functionality and the parameters they might set? And how many investor trading desks do you think are actually capable today of adopting that kind of a solution?

Chris Concannon

That's a great question, Chris. Really, the way a client would use the autoresponder, it's typically going to be a client that's already using our Auto-Ex functionality because they'll understand the parameter settings and have more comfort with the autoresponder as well. It will be likely sold in combination with both. But a client will load a list of bonds that they have some price levels that they are interested in and they can actually allow the autoresponder to monitor for other RFQs that are going on in the market without having a watchlist today and manually responding, which they can do today.

Most of the clients feedback on autoresponder already was, I'd like to watch this list of bonds, but I just don't have time to then engage in an RFQ process. So this allows them to have certain pricing limits. Certainly, we will be using our CP+ data feed as a guide as well, but it allows them to have certain pricing limits or other criteria around liquidity in the bond, how they RFQ is being formed, and so they can simply respond to RFQs in a fully automated manner and hear back. They can either have an accept button, where they actually make sure that they are priced right for that RFQ. But literally this is a way for them to fully automate a function that they do today, which is manually respond to other RFQs in the market.

Operator

And our next question comes from Patrick O’Shaughnessy with Raymond James. Your line is open.

Patrick O’Shaughnessy

Hey, good morning. Curious about how are you guys think about your ownership structure in terms of attracting the buy side and the sell side to participate in your platform? Does being independent really convey any event that you guys you see?

Rick McVey

Well, I would point out a couple of things, Patrick. We have been independent now. We’re about to celebrate our 15th anniversary as a public company. And it does, in our opinion, a number of positive things for our clients. One, we’re able to take into consideration the priorities for both investor and dealer clients, so we can be very balanced about our decision-making and our strategy with both investors and dealers in mind. I would also point out that our Board of Directors is a tremendous asset for the company, and adding people like Nancy Altobello and Richie Prager and now Justin Gmelich to our Board just this year brings us a really important outside strategic advice to the firm.

So we’re really pleased with the way the Board interacts with the management team and collaborates on company strategy. On the dealer side, obviously, some of our competitors who have dealer ownership, one of them is going through a transition right now. We would expect that decline in dealer ownership to continue. And ultimately, it’s likely now based on what we’re reading that LSE will be the majority shareholder longer term. What we think that does is just kind of level the playing field on the dealer side where dealers are agnostic in terms of which platform is delivering the most value, the high-quality client order flow and the right pricing. So we think that, that helps to level the playing field a bit as well.

Chris Concannon

And I would just add when we look at our investor shareholders, I am very encouraged by that list of investors because most of them, if not every one of them, are informed users of the platform. So you have a unique circumstance where our largest clients are also our largest investors. They have very informed investment theses around the market that we run because they are actively using the market. And that's hard to do if you are a – if you're owned by a vertically integrated exchange, for example.

Operator

[Operator Instructions] Our next question comes from Jeremy Campbell with Barclays. Your line is open.

Jeremy Campbell

Hey, guys. Just had a follow-up to Chris' earlier question on auto trading. When firms – new firms adopt auto execution, do they tend to increase the usage over time? Or is the big hurdle just kind of getting it turned on and then you see a lot of volume come through the pipes? I ask because I'm wondering if we're going to see a similar adoption volume cadence with autoresponder or since clients are more used to automated trading could be more robust and lead to a stronger read-through to trading velocity and volumes?

Chris Concannon

It's a great question. The sale process for Auto-Ex today is long. Typically, clients would adopt a small set of the Auto-Ex feature, try it out on certain bonds, get comfortable with the pricing and the execution quality, look at the transaction cost savings, do a lot of analytics around it before really rolling out to further bonds or bonds of different types of liquidity. Most importantly, we do see some clients increasing the size of their Auto-Ex. So they would typically launch an Auto-Ex feature on $1 million or smaller tickets and then over time increase those ticket sizes upwards of $2 million to $3 million, and we're seeing some clients adopting a $4 million and larger size limit on their Auto-Ex features. We'd expect to see the similar rollout on autoresponder. Obviously, there's some benefits of having a client already adopted Auto-Ex feature, but we do see a long sales cycle around the autoresponder.

Operator

And our next follow-up comes from Chris Allen of Compass Point. Your line is open.

Chris Allen

Yes. missed it. So I was just wondering if you guys provide the revenues for LiquidityEdge during the past quarter? Just trying to think about how they are billed moving forward?

Tony DeLise

Yes. So Chris, we didn't give you the revenue specifically, but we did provide the volume numbers. So if you look on that – on the one slide that Chris covered, you'll see average daily volume in the third quarter. It's roughly $18 billion a day. And we did also provide some color two months ago when we had that – the call announcing the acquisition. And when you look at their fee capture, fee per million, the last 18 months it's been bubbling around $3.50 per million.

So you can do the math, and you can see that revenue is around that $4 million, $4.5 million in the third quarter. So that you can put the pieces together and see what it looks like for revenue. Also, we gave you volume growth there as well. There is some public information on the results for prior years as well. It was $9 million of revenue in 2018.

Operator

And our next follow-up is from Chris Shutler of William Blair. Your line is open.

Chris Shutler

Hey, guys. Real quick one. On LiquidityEdge, just wanted to confirm, once you do own it, how you're going to change the disclosures?

Rick McVey

Yes. So Chris, what we're going to do, and again keeping with that theme of being fully transparent and timely with delivering information, we're going to stick with the monthly volume reporting. We're going to report volume in three buckets, which will be U.S. high-grade other credits, those are the existing categories that we have today, and the third category will be rates. And when you look at rates, it will largely be the U.S. treasury reporting. We do have some agency and government bond reporting in there, but you'll see that 99% of it is going to be U.S. treasury reporting.

Operator

And our next follow-up comes from Richard Repetto with Sandler O'Neill. Your line is open.

Richard Repetto

One more question on automated trading? I guess, on the – excuse me, portfolio trading. What is it going to be priced at? And do you think it's going to be a substitute for the all-to-all trading?

Chris Concannon

It's a great question, Rich. I was hoping you were going to ask about our muni record in August, but I'm happy to answer our portfolio trading.

Richard Repetto

I only have one question. I can't ask that.

Chris Concannon

The way we're pricing it is it's going to be obviously cheaper than doing a per-ticket item. The functionality is designed to make it attractive for both dealer and clients who transact a large portfolio. But we do think it will create, as Rick mentioned, we'll get the benefit of the tails of the post-portfolio trade that people unwind certain bonds within the portfolio. So it will be priced aggressively, certainly, at lunch because we see the market today, and we do think it's – relative to the TRACE volume it's small, but it is a large market that we are missing today.

So initially it will be priced aggressively, and it's really both for dealer and client. I think the biggest benefit is having the portfolio priced in comp with a variety of dealers being able to offer pricing on the portfolio. So the clients will see a benefit to their current trading environment where it's not very efficient and their pricing is typically one-to-one pricing.

Richard Repetto

Okay. I'm happy to hear anything about…

Chris Concannon

If that was a question on munis, we did hit a record in August of $1.2 billion. So thank you, Rich, for that muni question.

Operator

I apologize. Our next question comes from Kyle Voigt. Your line is open, with KBW.

Kyle Voigt

Thanks for taking the follow-up. So you saw some good growth in market data in the quarter. Just wondering if the uptick there was related at all to the Refinitiv partnership? And then just maybe just providing an update on kind of if you're seeing uptake through that partnership. I think you said in the past that the sales cycles maybe a little bit longer there, but yes, wondered if it's related to Refinitiv at all. Thanks.

Chris Concannon

No. Really, the uptick in market data, we really think – while we're seeing a lot of activity related to the Refinitiv relationship, the impact is really not making its way to financials in the third quarter right now. We're seeing, obviously, sales in Europe. Our Trax data continue to be a benefit in our market data of business currently, but we're excited about some of the new products that we'll have to offer. Obviously, having a treasury data feed is interesting to us. It will be a new product. And as we grow out our munis, we see an opportunity for municipal data as well. I don't know if you heard on the call, but we hit a record in August. It's $1.2 billion.

Tony DeLise

Kyle, just to add, that growth from, back in the second quarter to the third quarter, just to get a little more granular, combination of just the carryover impact of new data contracts during the year. So this year, we closed on data contract value of about $3.5 million. That's 10% higher than all of last year. So through the nine months, we're obviously in a run rate much higher than last year. We also had just – much lower impact that there was some onetime historical data sales during the quarter, but most of that is just the carryover impact from the increase in new contract activity.

Kyle Voigt

Got you. And Antonio, just because we're in a follow-up territory here, can I just ask one more on expenses. We're looking at the expense run rate for 2019 and trying to model out next year, you noted that a couple items aren't going to reoccur next year, including the sign on of executive management members as well as some of the one-offs related to the acquisition, you called out the $1.5 million there. Can you kind of quantify all of those? So it's $1.5 million for the – for maybe additional pro fees that are coming through in the second half?

And then can you kind of quantify how much expense was in the 2019 expense run rate for the executive management hires that we shouldn't expect to recur. And then just on organic growth basis should we be thinking more in kind of that high-single-digit type subterritory for organic growth into next year?

Tony DeLise

So as I said, it's a little early to get – to give you more comprehensive guidance into 2020. But on the first part of your question there, the senior higher component, which we did the right thing, we hired Chris. He's been tremendous. We hired Mike Baker as our new Chief Technology Officer; Oliver Huggins, the new Chief Risk Officer; those were the right things to do. They don't happen every year. So that step function…

Rick McVey

No, no, you can just stop there. That's good enough.

Tony DeLise

Okay. Yes. That step function, that was around – right around $10 million in expense in 2019. You tack on the $1.5 million for the LiquidityEdge deal-related costs, you're close to $12 million. And you look at our historical expense CAGR, even including the $256 million this year, the five-year CAGR has been around 12%. And if you just humor me and you say, you take out the senior higher impact and the impact of the deal cost, you're down at something like a 9% or 10% increase year-over-year in 2019. So we were actually little bit lower than our five-year CAGR on an adjusted basis. But we'll definitely provide a lot more information, a lot more color on the January call, including – again, including the view on LiquidityEdge and the amortization of intangibles. I'm just going to stop at that right now.

Operator

At this time, I'm showing no further questions. I would like to turn the call back over to Mr. Rick McVey for closing comments.

Rick McVey

Thank you very much for joining us this morning, and we look forward to talking to you, again, next quarter.

Operator

Ladies and gentlemen, thank you for your participation in today's conference. You may now disconnect. Everyone, have a wonderful day.