

OTC Markets Group

FY13 results

Steady progress

OTC Markets Group (OTCQX: OTCM) provides regulated marketplaces offering a cost-effective solution for targeting US investors. Corporates wanting an informed and efficient US market face less regulatory complexity, and so incur lower costs. 2013 was a challenging year with consolidation of broker-dealers affecting OTC Link ATS subscriptions and the downturn in the resource sector having an effect on corporate client numbers. Despite this, OTCM grew revenue by introducing new products and the sale of market data licence subscriptions.

Year end	Gross rev (\$m)	PBT* (\$m)	EPS* (c)	DPS** (c)	P/E (x)	Yield (%)
12/12	35.0	9.0	50.5	45.0	16.3	2.4
12/13	35.5	8.3	50.8	24.0	16.3	2.9
12/14e	38.0	9.1	47.5	26.0	17.2	3.1
12/15e	40.9	10.3	53.3	28.6	15.4	3.5

Note: *PBT and EPS are normalised, excluding intangible amortisation, exceptional items and share-based payments. **2012 included a 25c special dividend.

2013 pressures offset by management action

2013 saw pressures on two income streams. Resource companies, which had been a good source of growth in 2010 through 2012, faced increased financial pressures. Some no longer met the financial requirements of the OTCQX marketplace. Some did not have the capacity to invest in investor relations and the flow of new companies to the OTCQX marketplace nearly halved. In addition, ongoing consolidation among broker dealers saw their subscription fees reduce. OTCM offset these pressures with new product innovation and increased market data licence subscriptions. It has continued to invest in infrastructure and new products with cost growth of 5% vs revenue growth of 1% leading to a modest dip in profits.

Further action in 2014

We expect the same business pressures to continue into 2014 and we have already seen the 2013 into 2014 renewal rate at 84% (2013: 87%). OTCM has announced it will streamline the qualifications for banks and SEC reporting companies in H114, leveraging their existing disclosure to simplify the process. It has also announced enhancements to OTCQB marketplace targeting a better venture stage marketplace. The first price increase since 2009 in market data licensing has been introduced, effective 1 January 2014.

Valuation: Upside to \$10.9

The average of our valuation approaches is \$10.9 per share, giving a comfortable upside to the current price. Both our cash generation and Gordon's growth model have increased as we move forward a valuation year, given the strong cash and equity generation of the business. We have made modest changes to forecasts, with the increase in valuation from previous estimates (\$9) primarily from the impact of higher retentions and rolling forward the base year in our Gordon's growth model.

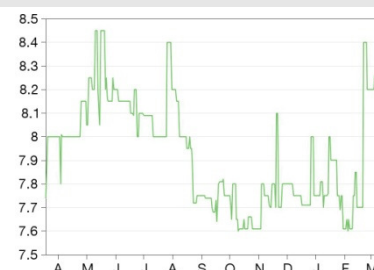
Financial services

17 March 2014

Price **US\$8.3**
Market cap **US\$94m**

Net cash (\$m) 31 December 2013	18.9
Shares in issue	11.4m
Free float	60%
Code	OTCM
Primary exchange	OTC QX

Share price performance



%	1m	3m	12m
Abs	6.6	6.5	1.9
Rel (local)	5.6	2.4	(14.2)
52-week high/low	US\$8.45	US\$7.6	

Business description

OTC Markets Group (OTCM) operates the OTCQX, OTCQB and OTC Pink financial marketplaces for 10,000 US and global securities. Its trading system OTC Link ATS is operated by OTC Link LLC, a member of FINRA/SIPC and SEC regulated ATS.

Next events

Q114 results	May 2014
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Analysts

Mark Thomas	+44 (0)20 3077 5700
Martyn King	+44 (0)20 3077 5745

financials@edisongroup.com
[Edison profile page](#)

Investment summary

Company description: “Open, Transparent and Connected” financial marketplaces

OTCM manages a number of marketplaces offering a cost-efficient option for companies wanting to have a US market where their securities can trade. There is global demand for access to US investors and of nearly 10,000 securities traded on its platforms, OTCM has over 1,500 foreign corporates' American depository receipt (ADRs) and 1,500 foreign corporate ordinary shares accounting for 63% of the dollar value traded. Revenues from Canadian companies accounted for c 11% of group gross revenue. OTCM has three broad sources of revenue: (i) charging brokers fees to quote, message and trade these securities, (ii) charging for data and (iii) charging corporates for a range of services. We believe the key is that most revenue streams are recurring and we note that revenue has increased every year since 2007. We also note the synergistic nature of the business, with for example increased broker-dealer quoting activity likely to lead to more market data revenue and more companies interested in using the corporate services.

Valuation: Not paying for cash generation

OTCM is trading on a c 17x 2014 P/E. OTCM is strongly cash generative and our discounted cash flow approach indicates a valuation of c \$10.7 a share. Our Gordon's growth model is \$11.0. OTCM suffers from low share illiquidity with limited effective free float.

Financials: 2013 pressures offset by new products/distribution

There were two noticeable challenges in 2013. Firstly, the downturn in the resources sectors restricted the number of corporate issuers, increasing non-renewal rates and seeing less new business flow in. Additionally consolidation among broker dealers saw certain licensing revenue lines under pressure. OTCM offset these pressures with new products and market data licensing agreements. We expect the pressures to continue into 2014 and again management has already announced a range of product enhancements and new market data pricing, which should result in moderate revenue growth. Forecasts have not changed materially.

Sensitivities: Regulation, markets, technology

- Regulation on other markets: How exchanges are regulated is important, and ironically easing rules elsewhere may be unhelpful to OTCM.
- Regulation of OTCM is also important: There is a regulatory proposal (FINRA QCF) that if implemented would materially reduce the income OTCM earns from its data.
- Market confidence: Much of OTCM's income is recurring, but there is an element that is sensitive to the amount of trading investors have the appetite to do (a positive in 2013).
- Technology: OTC Link ATS is the platform on which trades are conducted and its technology is critically important. On 7 November 2013 service was suspended for several hours but its rapid resolution and good communication has ensured that there has been limited revenue impact.

Company description: “Open, Transparent and Connected” financial marketplaces

Summary

OTC Markets Group Inc (OTCM) operates “Open, Transparent and Connected” financial marketplaces for investors to trade almost 10,000 equity and debt securities linking a diverse network of over 130 broker-dealers that provide liquidity and execution services. The securities in the OTCM’s marketplaces include over 1,500 ADRs (2012: 1,500; 2011: 1,200), which represent c 75% of the total ADR market. The OTCM ADR Index covers more than 600 of these ADRs. ADRs and around 1,500 foreign ordinaries (2012: c 1,500; 2011: 1,300) account for 63% of the dollar volume across all marketplaces. There are issues from nearly 650 community banks, a group OTCM is targeting with a new streamlined process in 2014.

In 2013 more than \$201bn (2012: \$136bn) of dollar volume was traded in OTCM securities. In 2013 OTCM accounted for \$52bn, or 26% market share, trading 435bn shares. In 2013, over 94% (2012: 95%) of the dollar volume of securities traded on OTC Link ATS had current information available to investors. Data is disseminated to subscribers through 55 distributors (2012: 54; 2011: 47) including the likes of Bloomberg, Interactive Data Corporation and Fidessa.

The best companies, many of which provide considerable financial information and are compliant with many exchange listing requirements, use the OTCQX marketplace and include stocks such as Adidas, BNP Paribas, Gazprom, Repsol and BskyB. In 2009-12 there was strong growth in the number of OTCQX marketplace securities, the highest income earning group, especially from international companies (with a significant representation of Canadian companies), but weakness in the resource sector has seen this group reduce in number in 2013 and early 2014. OTCQB is the “venture stage marketplace” for companies that are current in their reporting with a US regulator but may not meet all the conditions of the OTCQX marketplace. The third marketplace is called OTC Pink, “The Open Marketplace”, and has companies with a range of financial and other disclosures.

Exhibit 1: Summary of companies listed by marketplace

No of securities	Dec 2009	Dec 2010	Dec 2011	Dec 2012	Dec 2013	6 March 2014
OTCQX US	17	21	29	44	38	36***
OTCQX Int	61	138	285	356	332	300***
OTCQX total	78	159	314	400	370	336 ***
OTCQB**	3,321	3,851	3,625	3,401	3,143	3,180
OTC Pink (total)	5,879	5,954	6,227	6,173	6,498	6,330*
Total	9,278	9,964	10,166	9,974	10,011	9,846

Source: OTCM (www.otcm Markets.com/research/companyDirectory), Edison Investment Research. Note: *Of the OTC Pink current number, 3,191 were current info, 369 limited info and no info basis 2,770. **Actual launch April 2010. ***A fall in Q1 is not unusual given the January renewal process.

OTCQX: “The Best Marketplace with Qualified Companies”

OTCM has identified for investors those companies with good disclosure and that meet certain additional criteria. Given these conditions, these companies represent the lower-risk investments and often are companies that could be listed on a major US exchange but choose not to. OTCM believes less than 20% of its non-OTCQX customers would be eligible for the OTCQX marketplace. The key advantages of OTCQX are lower costs and regulation, while the stock exchanges have certain regulatory advantages and more established brands. The OTCQX marketplace represents 15% of securities traded.

OTCQX U.S./OTCQX U.S. premier

OTCQX U.S. is the highest OTCM marketplace and adopted by over 35 US companies. Of these about a third are “OTCQX U.S. Premier”, which is designed to identify corporates that are of the

size and quality to list on a national stock exchange. Many OTCQX U.S. customers are emerging-growth companies that may be working to a full exchange listing but do not yet have the scale to support the full listing requirements (in 2013 eight OTCQX marketplace companies graduated to the NYSE or NASDAQ exchanges). Others are seasoned companies looking to provide a quality marketplace for their securities. In 2014 management has rolled out a new streamlined bank qualification process especially targeting community banks, and amended the rules for the OTCQX marketplace for US companies and international companies. The objectives are to enhance communication (eg speedier disclosure of price sensitive information) as well as the process.

OTCQX International and OTCQX International Premier

A foreign corporation can opt out of not only the Sarbanes-Oxley Act, but also the voluminous filing demands of the Securities & Exchange Commission. OTCM estimates, all told, the savings for a big firm seeking an alternative to a US exchange listing might run to \$10m plus a year. There may also be some modest advantages in having a lower litigation risk relating to certain SEC reporting requirements. As with a listed ADR, a custodian receives the shares on the foreign market, holds them in custody and issues a negotiable security equivalent to those shares but which is traded on US markets as a US security (with all the tax, etc, implications). It trades in dollars and pays dividends in dollars; for small US investors this avoids the complications of currency conversion.

Of the 336 international companies there is a wide geographic mix. We detail in the section below the impact of weakness in the resource sector putting pressure on the number of companies using the OTCQX marketplace.

OTCQB: “The Venture Stage Marketplace”

OTCQB is the venture marketplace for companies that are current in their reporting with a US regulator. There are currently no financial or quantitative standards to be in the OTCQB marketplace. OTCQB marketplace securities may also be quoted on the FINRA BB. The OTCQB marketplace allows investors to easily identify reporting companies. The fall in the number of securities on OTCQB marketplace is due to SEC suspensions of dormant companies. In 2014 management is also changing disclosure requirements and adding standards (eg adding a bid price test that will likely remove most sub-penny securities) on the OTCQB marketplace and targeting international venture stage companies. With the new standards, OTCQB will be a premium, fee-based marketplace that is expected to begin generating incremental revenue in 2014.

OTC Pink: “The Open Marketplace”

OTC Pink, the third marketplace, is divided into three further levels:

- OTC Pink Current: Companies that follow the Alternative Reporting Standard or the International Reporting Standard by making filings publicly available through the OTC Disclosure & News Service. There is a mix of companies on OTC Pink Current including, for example, Nestle. Corporates may choose this marketplace reflecting *inter alia* their appetite for engagement with US shareholders. It also includes shell or development-stage companies with little or no operations as well as companies without audited financials.
- OTC Pink Limited: Inclusive of companies that make limited information publicly available, for example those with financial reporting problems, economic distress, or in bankruptcy or that simply choose not to provide more. Companies in this category have limited financial information not older than six months available.
- OTC Pink No Information companies: Indicates companies that are not able or willing to provide disclosure to the public markets. OTC Pink No Information includes defunct companies that have ceased operations as well as ‘dark’ companies with questionable management and market disclosure practices. Management notes that publicly traded companies that are not

willing to provide information to investors should be treated with suspicion and their securities should be considered highly risky.

OTC Link ATS Trading Services

The OTC Link ATS marketplace is provided through the OTC Link Alternative Trading System, which began operation on 1 June 2012. OTC Link ATS is operated by OTC Link LLC, a FINRA member broker-dealer, SEC-regulated Alternative Trading System and wholly-owned subsidiary of OTCM. As a FINRA- and SEC-regulated entity, OTC Link ATS is required to comply with applicable regulations and undergo periodic examinations by the SEC and FINRA.

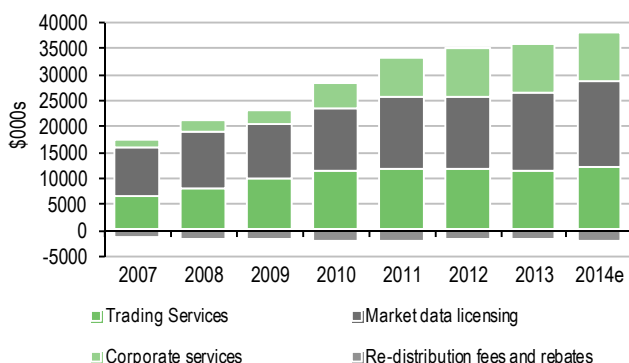
OTCM attractions – cost-effective, efficient, effective

The business model has several competitive cost advantages over exchanges.

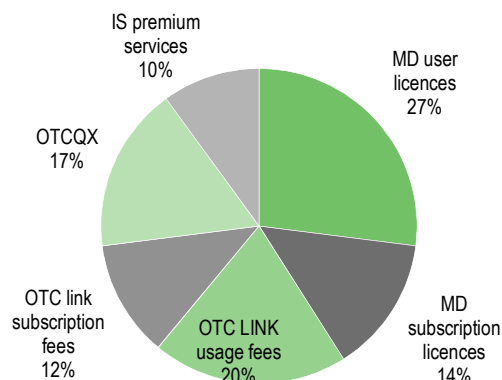
- Corporates face lower compliance costs and complexity. Securities are traded, but OTCM is not an exchange. While heavily regulated (see below), this means corporates can establish a market for their securities without the burdensome costs and regulation associated with a listing. This is appealing not only to smaller companies where the costs of listing may be disproportionate, but also to global businesses that want access to the US market.
- Corporates also have access to OTCM's broad network with immediate full distribution to the US investor community and financial and market press. This visibility can be used to broaden a company's appeal.
- Exchanges introduce intermediary costs while OTCM puts traders directly in contact with each other. The cost savings of not having an intermediary can then be shared. OTCM's network approach should also reduce search costs in that all the interested parties are on the same multi-sided platform and so they do not need to incur any costs in looking elsewhere. In a way it is like shopping on eBay rather than trailing round a number of shops.
- OTCM believes its network gives broker-dealers better control over the execution of clients' orders, improving service levels, best execution and managing capital requirements.
- The connectivity established across the network has established critical mass in both securities and also broker-dealers, making it the primary place to deal in its securities (see completion section below). This is an important barrier to entry.

How OTCM generates revenue

Revenue has risen every year since 2007 (Exhibit 2) and is relatively independent from trading activity. OTCM has developed a range of income lines across trading services (a mix of volume related and subscriber fees), market data licensing (subscriber based) and corporate services (Exhibit 3 below). The critical business message is that the majority of these revenues are relatively stable subscription types of business.

Exhibit 2: Trend in group revenue


Source: OTCM, Edison Investment Research

Exhibit 3: Revenue split


Source: OTCM, Edison Investment Research

Trading services (\$11.4m, 32% of 2013 revenue, 2012: 33%)

OTCM charges broker-dealers a number of fees (typically layered by volumes), including (i) quote fee, charged per stock in which they make a market; (ii) messaging fees, which are charged on a layered basis, per security per day – the key driver is trading activity; (iii) a dealer application, charged by the number of authorised dealers and (iv) a view-only quoting service for non-market-making market participants (eg agency only brokers and compliance officers).

Trading services generated \$11.4m of revenue in 2013 (2012: \$11.6m). The key units here are quote and message income (the latter has been increasing) and OTCM dealer licence subscriptions, which has seen some pressure on individual trader licences as smaller, manual-trading brokers have been squeezed out of the market. The total number of brokers has stabilised at around 130. This revenue stream is sensitive to the macroeconomic environment, investors' confidence and the resultant trading volumes. There is also a small element of rebate to connectivity fees (c 0.3% of revenue).

Market data licensing (\$14.7m, 42% of 2013 revenue, 2012: 40%)

OTCM's market data distribution network includes all the major financial data distributors, such as Bloomberg (c 13% of group gross revenue), Interactive Data Corporation, and Fidessa. It also encompasses online brokerages including Etrade, Fidelity, Schwab, Scottrade and TD Ameritrade. They typically pay monthly licence fees, which vary with the type of licence (different layers offering access to different types of data and different usages such as internal only or to clients etc). Redistribution fees and rebates are paid to some distributors. Around two-thirds of this reporting unit's revenue comes from professional licences. For the first time since 2009, a price increase is being put through effective from 1 January 2014 with management saying they are bringing their pricing in line with peers.

The key to growth in this revenue line has been increased granularity of data allowing for a greater range of fees to be charged. Major new agreements include seeking Alpha, MSN Money and tradeMonster (all of which signed in H213) with only a modest benefit to 2013 business. The portals (like Seeking Alpha, MSN Money) are now showing marketplace designations (for example, showing whether a company is OTCQX, OTCQB or OTC Pink).

Exhibit 4: Announcements on market data initiatives since end-June 2013

Date	Announcement
7 February	NASDAQ OMX's GlobeNewswire and OTC Markets Group Announce Enhanced News Distribution
28 January	OTC Markets Group Provides Real-Time Level 1 Data to TradingBlock
18 December	Seeking Alpha Displays OTCQX, OTCQB and OTC Pink Marketplace Designations
5 December	Free Real-Time Level 2 Quotes Available in Fannie Mae and Freddie Mac at OTCMarkets.com
1 October	OTC Markets Group and Marketwired Announce News Distribution Agreement
26 September	OTC Markets Group and PR Newswire Announce Enhanced News Distribution
23 July	OTC Markets Group Provides Real-Time Level 1 and Level 2 Data to TurnKey Brokerage Solutions' TurboTick Trading Platform
18 July	OTC Markets Group Provides Delayed Level 1 Quotes to YCharts
9 July	OTC Markets Group Delayed Level 1 Quotes and Marketplace Designations Now Displayed on MSN Money
8 July	OTC Markets Group Executes Enterprise Licensing Agreement with tradeMONSTER™ for Real-Time Level 1 Quotes

Source: OTCM, Edison Investment Research

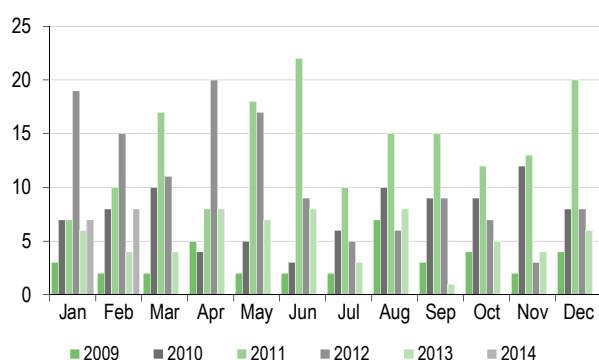
Corporate services (\$9.3m, 26% of 2013 revenues, 2012: 27%)

OTCM offers corporates a range of services including:

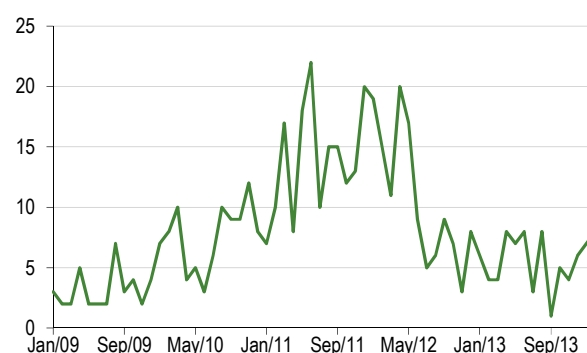
1. OTC Disclosure & News Service for the dissemination of financial results, news, videos, investor presentations and other investor communications.
2. Compliance services including assistance understanding a range of state requirements.
3. Customer Support: Services range from helping understand listing requirements through to posting news releases to ensure timely informational, educational and regulatory updates.

OTCQX marketplace corporates pay an application fee of \$5k and a recurring annual fee of \$15k. With around 330 clients, the annual fee alone raises c \$5m, an eighth of 2015e group revenue. Premium services, which generate incremental revenue and have better retention rates, are used by less than a tenth of corporates, presenting a material opportunity for upselling.

2013 saw revenue under pressure as weakness in the resource sector reduced the number of companies using OTCM services. Given the stresses on their resources, investment in investor relations was seen as a low priority (as evidenced by the lower renewal rates reported above). Lower asset values also meant that several companies did not meet OTCM's net asset listing requirements. These factors also meant that the flow of new customers came under pressure.

Exhibit 5: New customers by month (OTCQX)


Source: OTCM, Edison Investment Research

Exhibit 6: Monthly progression OTCQX new customers


Source: OTCM, Edison Investment Research

Management

As may be expected from a management team in financial services technology, the management team is young with an average age for management of under 40 and for directors under 50. There is a reasonable balance between experience with the company and fresh thought. R Cromwell Coulson, president and CEO, in 1997 led a group of investors in acquiring OTCM's predecessor

business, the National Quotation Bureau (NQB), and he still owns 3.4m Class A shares (31.4% of the company) and 130k Class C shares. Neal Wolkoff, former CEO of the American Stock Exchange, was named chairman of the board in August 2013.

Regulation

Own regulation

The OTCM and broker-dealers' activities in the market are regulated by the Financial Industry Regulatory Authority (FINRA), the U.S. Securities and Exchange Commission (SEC) and various state securities regulators. In addition, companies with SEC-registered securities are regulated by the SEC. OTCM is neither a stock exchange nor a self-regulatory organisation (SRO). The SEC in 2013 designated OTCQX and OTCQB "established public markets". The trading system is operated by the OTC Link LLC subsidiary as a FINRA broker-dealer and registered with the SEC as an Alternative Trading System (ATS).

FINRA proposed quotation consolidation facility (QCF)

On 13 November 2009, FINRA filed with the SEC a proposed rule change (QCF) whereby FINRA would provide a national best bid or offer for OTC securities and requiring OTCM to provide it with free quotations. These proposals would severely affect market data licensing revenues by eliminating the subscription income currently earned for distributing such data (43% of the reported market data licensing revenues, or about 18% of group revenue). In addition, there may be some negative impact on securities traded through OTC Link ATS, thus reducing trading services revenues, harming the value of OTCM's market data. Overall, without management action, group profitability would fall significantly. There is no timeline for when QCF may or may not be imposed. Small amendments were proposed on 18 March 2010, but neither they nor the original proposals have been adopted. We understand for proposals that have been with the SEC for this length of time, it is quite possible there will be a further round of seeking comments before anything is finalised and even if implemented OTCM has a number of options to mitigate their effect.

Other regulatory developments

- Jumpstart Our Business Startups Act (JOBS Act) – in H213 the SEC has proposed a number of rules under the JOBS Act, which on balance could be beneficial to OTCM. In particular, the new rules reduce the previous confidentiality constraints on private securities offerings and encourage transparency, and together with changes to "regulation A+" (announced 18 December, which will increase the level of smaller exempt securities issues) play well to OTCM's strengths. The SEC issued crowd-funding proposals on 23 October 2013, which would allow securities issued under these rules to be publically traded 12 months after issuance, creating a potential new source of securities to be traded on OTCM's marketplaces.
- The Tier Size Pilot has been extended to November 2014. Cornerstone Research's 13 September 2013 report to FINRA highlighted that for securities priced under \$0.1, effective spreads increased and there were reductions in the average size of best bid and offers, confirming the OTCM stance (and lobbying) on the proposals.
- Decimatisation – the Spread Pricing Liquidity Act was recently introduced into Congress. OTCM believes this should be extended to the OTCM marketplaces.
- Regulation SCI – in March 2013 the SEC proposed a number of compliance and reporting requirements for exchanges and alternative trading systems. OTCM supports the objectives but, along with others including NYSE and NASDAQ, is arguing they are unduly burdensome and hinder efficient capital markets.

Competition

OTC Bulletin Board (OTCBB)

We understand technology constraints, some potentially ill-judged pricing and management distracted for some years by uncertainty over a potential sale mean OTCBB has lost considerable business to OTCM. In 2013 OTCBB reported its average daily market makers fell to 75, down from 90 in 2012 and its 15th sequential year of decline. In 2013 the average daily number of securities on OTCBB was 990 against 2,047 in 2012 and this has continued to fall (804 in February 2014). In February 2014 there was on average just one daily quote update.

BX Venture Market

On 6 May 2011 the SEC approved the creation of the BX Venture Market (BXVM), a proposed listing market for OTC equity securities to be operated by NASDAQ OMX Group, Inc. In 2011 NASDAQ OMX Group announced that the BX Venture Market was expected to launch during 2012 but it has been on hold since. The failure to launch this venture is indicative of the competitive environment OTCM faces.

Exchanges/ATSs

While not an exchange, OTCM is competing for a share of securities trading with exchanges such as NASDAQ and NYSE, as well as international exchanges and is sensitive to their regulation as well as its own. Regulation of exchanges and their strategic direction could change the competitive environment. The more successful that OTCM is, the greater the probability that the exchanges will view its market as more attractive and look to establish me-too marketplaces backed by the exchange's infrastructure. At present the other registered alternative trading systems provide execution services rather than quotation services and are more customers than competitors of OTCM. Private securities markets such as Secondmarket and SharesPost could evolve as competition. We understand Secondmarket is no longer trying to develop a market for community banks. It is also possible that SEC crowd-funding proposals could see unregistered issuers publish disclosure on the EDGAR system, although we do not expect the impact of this to be material.

Technology

While OTCM provides a marketplace in securities, it is critically a systems business with in-house product development ensuring management has direct control. Continued reinvestment in systems is a feature of the business model that we expect to continue. OTCM is now electronically linked to traders also interfacing with the major exchanges, and delivery of service consistent with the technology requirements of this group has been a key feature of OTCM, creating an effective barrier to entry. Continuous re-engineering also reduces the risk from key staff moving to potential competitors.

Downtime historically had been negligible (operational availability 99.998% during 2012), but on 7 November 2013, OTCM announced its trading system had experienced issues connecting to the primary data centre in New Jersey due to a network outage at one of its core network providers. OTC Link ATS was not opened until 2:45pm ET for quoting with full message and trading capability starting at 3:00pm ET. It appears that OTCM's plans in terms of recovery and critically communication with customers have worked reasonably well and we understand that the ongoing financial effect is expected to be modest. The loss of nearly a full day's trading reduced annual income by less than 0.5%. The effect on the brand is less immediately quantifiable but we understand that trading patterns since the outage have been in line with prior experience. There

was a further smaller, unrelated outage in early December related to a switch in the new data centre (since which all switches have been replaced).

Management quickly identified that one area that contributed to the problem was enhanced security associated with regulating normal access and specifically access for some non-internet connecting broker dealers. There have been changes made to cover this specific aspect and a full review of processes is underway. It is probable that this will delay the implementation of some new product launches (both with immediate allocation of resources to the review but also with changes to procedures).

Other sensitivities

Stock liquidity

Officers and directors beneficially owned 4.6m shares with the CEO holding 3.4m class A and 131k Class C (including those held by his wife and children's trust). In addition, his family trust, over which he has no control, owns 687k shares and a further 5.2% is held by one holder. The shares are concentrated in just 122 holders of record. Trading is limited, creating illiquidity issues and share price volatility as holders may want to sell a reasonable block of shares or buyers look to execute a large purchase. The company maintains a share buyback programme with current authorisation to purchase over 250,000 additional shares.

Valuation

On our estimates, OTCM is trading on a 2014e P/E of 17x. There are no peers on which to value OTCM. Our Gordon's growth valuation model implies a value of \$11.0 based off a sustainable ROE of 20% (c 10% below 2014 level), a cost of equity of 9% and growth of 5% and a modest premium for near-term outperformance (especially in ROE) against these long-term assumptions. Our cash flow approach (taking explicit forecasts for two years, 10 years on an assumed 5% growth, a 9% discount rate and terminal value at 10x final cash flow) generates a value of \$10.7.

Exhibit 7: Gordon's growth valuation and sensitivity

	Base	1% ROE	1% g	1% COE
ROE	20.0%	21.0%	20.0%	20.0%
Growth	5.0%	5.0%	6.0%	5.0%
COE	9.0%	9.0%	9.0%	10.0%
P/B	3.8	4.0	4.7	3.0
2015 NAV E	2.35	2.35	2.35	2.35
Implied LT value	8.80	9.38	10.95	7.04
Near term premium	25%	25%	25%	25%
Implied fair value	11.00	11.73	13.69	8.80
Difference		0.73	2.69	-2.20

Source: Edison Investment Research. Note number of shares includes treasury.

Financials

The FY13 results were in line with our forecasts and we have made only modest changes, detailed below.

Exhibit 8: Changes to estimates

	Revenue (\$m)			PBT (\$m)			EPS (c)			Dividend (c)		
	Old	New	Change	Old	New	Change	Old	New	Change	Old	New	Change
2013	33.9	33.6	-1%	8.2	8.3	2%	48.7	50.8	4%	24.0	24.0	0%
2014e	37.2	35.9	-3%	9.1	9.1	0%	49.7	47.5	-4%	28.0	26.0	-7%
2015e	41.0	38.7	-6%	10.6	10.3	-3%	57.5	53.3	-7%	33.6	28.6	-15%

Source: OTCM, Edison Investment Research

Exhibit 9: Key financials – profit and loss account (\$000s)

Year ended December	2009	2010	2011	2012	2013	2014e	2015e
Trading Services	9,894	11,378	11,773	11,640	11,437	12,238	13,094
Market data licensing	10,911	12,093	13,680	14,081	14,741	16,215	17,837
Issuer services	3,227	4,568	7,498	9,305	9,331	9,500	10,000
Gross revenues	24,032	28,039	32,951	35,026	35,509	37,953	40,931
Re-distribution fees and rebates	(1,944)	(2,168)	(2,188)	(1,842)	(1,869)	(2,056)	(2,261)
Net revenue	22,088	25,871	30,763	33,184	33,640	35,897	38,669
Operating expenses (exc depreciation and amortisation)	(15,520)	(19,723)	(22,299)	(22,606)	(23,700)	(25,000)	(26,500)
Depreciation and amortisation	(835)	(1,017)	(1,358)	(1,622)	(1,642)	(1,800)	(1,900)
Income from operations	5,733	5,131	7,106	8,956	8,298	9,097	10,269
Other income / net interest	(89)	(69)	(115)	30	0	0	0
Income before provision for income taxes	5,644	5,062	6,991	8,986	8,298	9,097	10,269
Taxes	(2,138)	(2,127)	(2,139)	(3,509)	(2,667)	(3,548)	(4,005)
Net income	3,506	2,935	4,852	5,477	5,631	5,549	6,264
Diluted Adjusted EPS (\$)	0.33	0.28	0.45	0.51	0.51	0.47	0.53

Source: Edison Investment Research. Note: EPS excludes treasury shares.

Exhibit 10: Key financials – balance sheet (\$000s)

Year end December	2009	2010	2011	2012	2013	2014e	2015e
Current assets							
Cash and Cash equivalents	5,385	6,703	10,170	13,611	18,936	20,511	24,946
Short term instruments	0	0	1,297	0	0	0	0
Accounts receivables net of allowances	5,861	5,329	7,194	6,481	4,980	7,750	8,500
Pre-paid income taxes	215	582	307	345	179	500	500
Prepaid expenses and other current assets	652	381	417	744	711	561	561
Deferred tax assets (net)	102	259	293	203	173	173	173
Total current assets	12,215	13,254	19,678	21,384	24,979	29,495	34,680
Property and equipment (net)	4,021	4,036	5,143	5,066	4,184	4,184	4,184
Goodwill	251	251	251	251	251	251	251
Intangibles	139	88	40	40	40	40	40
Security deposits	89	181	209	209	210	210	210
Deferred tax assets (net)	0	0	0	0	314	0	0
Total Non-Current assets	4,500	4,556	5,643	5,566	4,999	4,685	4,685
Total Assets	16,715	17,810	25,321	26,950	29,978	34,180	39,365
Current liabilities							
Accounts payable	791	387	629	721	509	600	600
Current portion of bank loan	786	92	0	0	0	0	0
Accrued expenses and other	2,180	1,970	3,066	2,868	3,400	3,400	3,400
Dividend payable	336	414	419	0	0	0	0
Income tax payable	0	0	0	0	0	0	0
Income tax reserve	0	372	109	0	0	0	0
Deferred revenue	2,731	4,299	6,628	7,670	6,391	6,391	6,391
Total Current Liabilities	6,823	7,534	10,851	11,259	10,300	10,391	10,391
Bank loan	1,246	0	0	0	0	0	0
Deferred rent	757	816	926	786	608	575	575
Deferred tax liabilities net	176	200	475	113	0	0	0
Income tax reserve	0	0	197	277	366	366	366
Total non-current liabilities	2,179	1,016	1,598	1,176	974	941	941
Total Liabilities	9,002	8,550	12,449	12,435	11,274	11,332	11,332
Net assets Inc non-controlling interests	7,713	9,260	12,872	14,515	18,704	22,848	28,033
Year-end no of shares	8,408,942	10,480,945	10,615,433	10,830,885	11,019,348	11,119,348	11,219,348
Equity NAV per share (\$)	0.917	0.884	1.213	1.340	1.697	2.055	2.499

Source: Edison Investment Research, company accounts

Contact details		Revenue by geography							
304 Hudson Street 3rd Floor New York NY 10013 US +1 (212) 896 4400 www.otcmarkets.com		<table><tr><td>Trading services</td><td>32%</td></tr><tr><td>Market data licensing</td><td>43%</td></tr><tr><td>Corporate services</td><td>25%</td></tr></table>		Trading services	32%	Market data licensing	43%	Corporate services	25%
Trading services	32%								
Market data licensing	43%								
Corporate services	25%								
CAGR metrics		Profitability metrics		Balance sheet metrics		Sensitivities evaluation			
EPS 2010-2013	3%	ROE 2013	34%	Net cash 2013	18.9	Litigation/regulatory	●		
EPS 2013e-2015e	22%	Avg ROE 2010-2015e	34%	Net cash 2015e	25	Pensions	○		
Revenue 2010-2013	7%	Pre-tax margin 2013	25%	CA/CL 2013	2.4	Currency	●		
Revenue 2013e-2015e	9%	Pre-tax margin 2015e	27%	CA/CL 2015e	3.3	Stock overhang	●		
Costs 2010-2013	6%			Debtor days 2013	54.0	Interest rates	●		
Costs 2013e-2015e	6%			Creditor days 2015e	5.2	Oil/commodity prices	●		
Management team									
CEO, president, director: R Cromwell Coulson				CFO: Wendy Fraulo					
In 1997, Cromwell led a group of investors in acquiring OTCM's predecessor business, the National Quotation Bureau (NQB). Prior to this, Cromwell was an institutional trader and portfolio manager in distressed and value-oriented investments.				Wendy Fraulo joined as CFO in July 2011 after 12 years of public accounting experience including M&A transaction services at Deloitte & Touche LLP and previously audit work on large SEC registrants.					
General counsel: Dan Zinn				Chairman: Neal Wolkoff					
Dan joined in November 2010. Prior to joining OTCM, he was a partner at The Nelson Law Firm, LLC, and was outside counsel to the company. Dan previously worked in the corporate office of the American International Group (AIG).				Neal Wolkoff is a former executive of three exchanges (including being former chairman and CEO of AMEX and an executive officer at NYMEX). He is a consultant and attorney focusing on futures and securities markets, exchanges, market regulation, operations and clearinghouses.					
Principal shareholders						(%)			
R Cromwell Coulson 3.413m direct ownership, (Family trust has an additional 0.687m)						31.4 (6.3)			
C Carucci (0.562m)						5.2			
A Wimpfheimer (director 0.393m)						3.6			
Other officers and directors beneficial ownership (0.620m)						5.7			
R Cromwell Coulson Class C 131k						100%			
Companies named in this report									
N/A									

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