



OTC Markets Group Inc.(OTCM)

Initiate Coverage Of OTC Markets Group, Inc. With A \$21 Price Target

	2014	2015	2016E	2017E
Mar.	\$0.15	\$0.16	\$0.20A	\$0.21
June	0.14	0.20	0.21A	0.24
Sep.	0.17	0.26	0.28	0.30
Dec.	<u>0.23</u>	<u>0.25</u>	<u>0.27</u>	<u>0.29</u>
EPS	\$0.69	\$0.88	\$0.95	\$1.04
P/E			17.8x	16.4x

Note: NR = Not Rated. Risk Ratings: H = Highly risky; M = Moderately risky. 2014-2017E EPS include a respective \$0.08, \$0.09, \$0.07 and \$0.07 of stock-based compensation expense. Sum of quarterly EPS may not equal full-year total due to rounding and/or change in share count. NC=Not covered by Sidoti & Co., LLC.

Year*	2008	2009	2010	2011	2012	2013	2014	2015	2016E	2017E
Rev.(Mil.)	\$21.2	\$24.1	\$28.0	\$30.8	\$33.2	\$33.6	\$39.8	\$47.5	\$49.6	\$50.8
GAAP EPS	\$0.18	\$0.33	\$0.28	\$0.45	\$0.51	\$0.51	\$0.69	\$0.88	\$0.95	\$1.04

*Revenue is net of redistribution fees.

Description: OTC Markets Group, Inc. (www.otcmkt.com) operates three lines of business centered on 10,000 U.S. and global securities clients. The company offers a cost-effective solution to penetrate the U.S. securities market, while providing a host of services that connect brokers and dealers, organize markets, and ultimately monetize OTC's vast database of information. OTC's three lines of business are Link (24% of revenue), Market Data (41%) and Corporate Services (35%). Headquarters are in New York, NY.

OTC has a unique market position with venture-stage companies and highly recurring revenue. The business started in 1913, but in 1997 current CEO R. Cromwell Coulson spearheaded the buyout of the firm by a group of private investors. This led to a more efficient offering that turned OTCM into a real-time electronic market for smaller companies looking to access U.S. investors. Although technically not an exchange, OTCM offers services that promote transparency and enhanced reporting to investors, while taking the data and information and selling it to third-party providers, thereby securing multiple revenue generators. In addition, as all three OTC Markets Group offerings are largely subscription based, a recurring-revenue model fosters consistent and stable operating profit, in our view.

Online crowdfunding presents a new growth opportunity, in our view. The Jumpstart Our Business Startups (JOBS) Act of 2012 lessened the burden for small and midsize companies to raise capital in the open marketplace, with the aim of helping these companies create jobs and access funding. The Securities and Exchange Commission (SEC) in 2015 then adopted Regulation A, aimed specifically at web-based "crowdfunding." In February 2016, Elio Motors (OTCMKTS: ELIO, NC) was first to list on the OTCQX Best Market, raising \$17 million via crowdfunding. This model is in the early stages, but we find OTCM aligned well for growth in this arena and identify crowdfunding as a viable longer-term growth catalyst for the company.

We estimate improved operating leverage despite our forecast for a slowdown in annual revenue gains. Revenue was up 18%-19% annually in 2014-2015, largely due to new pricing initiatives amid the rollout of the OTCQB market and a rise in subscription revenue. We forecast 4% revenue growth in 2016 and almost 3% in 2017, driven by new product offerings, offset by a weaker IPO market and normalization of the business. OTC will increase pricing, as well as product and service offerings, as we see it, but with some 70% of revenue from recurring subscriptions, the business model is stable, in our view. Since we estimate cost increases will trail revenue growth, we forecast operating margin expansion to 36.0% in 2016 and 37.9% in 2017, after 310 points of widening to 35.5% in 2015. The need to spend on information and technology is not an overhang, as we see it, since personnel costs will be kept largely stable. We forecast EPS growth of 8% to \$0.95 in 2016 and 9% to \$1.04 in 2017, based on these assumptions.

NR

Price Target: \$21

Price: \$17.05

Risk Rating: H

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Key Statistics

Analysts Covering	1
Market Cap (Mil)	\$180
Enterprise Value	\$172
52-Week Range (US OTC)	18-13
5-Year EPS CAGR	12%
Avg. Daily Trading Volume	3,000
Shares Out (Mil)	11.431
Float Shares (Mil)	6,058
Insider Ownership	47%
Institutional Holdings	53%
Annualized Dividend	\$0.56
Dividend Yield	3.3%
FCF Per Share (2017E)	\$1.23
FCF Yield (2017E)	8.0%
Net Cash Per Share (2017E)	\$3.24
Price to Book Value	9.7x
Return on Equity (2017E)	38.8%
Total Debt to Capital	Nil
Interest Coverage Ratio	N/A
Short Interest %	N/A
Short Interest Days To Cover	N/A
Russell 2000	1,240
Russell 2000 - Last 12 Months	6.9%
OTCM - Last 12 Months	20.0%



Source: FactSet Prices

A debt-free balance sheet and strong cash flow are key investment positives, in our view...The company's capital spending needs are de minimus (\$1.6 million in 2014 and \$940,000 in 2015) and helped drive free cash flow of \$10.9 million (\$0.98 per share) in 2014 and \$16.2 million (\$1.43) in 2015. On estimated capital outlays of \$873,000 in 2016 and \$1.15 million in 2017, we forecast respective free cash flow of \$12.0 million (\$1.05) and \$14.1 million (\$1.23). The company had \$23 million of cash (\$2.04 per share) and no debt at the end of 2Q:16. By the close of 2017, we model cash of \$37.0 million (\$3.24 per share) and no debt.

...along with a generous dividend payment policy and opportunistic share repurchases. Cash is sufficient to fund the \$0.14 per share quarterly dividend (3.5% annual yield); we note the company paid two special dividends in 4Q:14 (\$0.50 per share) and 4Q:15 (\$0.60 per share) for total annual dividend payments of \$9.1 million and \$12.1 million, respectively. For the trailing 12 months ended 2Q:16, OTC paid out \$1.12 per share, or a current yield of 7%. We do not factor in any special dividends in 2016 or 2017, so we model total dividend payments of \$6.3 million per annum. Under a 300,000 share repurchase authorization, the company bought back 49,623 shares at an average price of \$16.15 (total cost of \$801,411) in 1H:16, 58,200 shares at an average price of \$14.03 per (\$832,000) in 2015 and 69,028 shares at an \$11.89 per average (\$817,000) in 2014. For 2016-2017, we forecast a stable dividend and, while an active share repurchase program is in place, we model no further share repurchases.

We initiate coverage of OTC Markets Group Inc. with a \$21 price target. OTCM is up 4% year to date in 2016, compared with a 1% increase in the Russell 2000 Index, and trades at 17.8x and 16.4x our respective 2016 and 2017 EPS forecasts. In the last five years, OTCM ranged from 12x-21x forward EPS and averaged 16x. Peers in the corporate service-based industry trading at 17x-26x (average 20x) estimated 2016 EPS and 15x-24x (average 19x) the consensus 2017 EPS forecast. Although OTCM's lack of liquidity validates the discount to peers, we view the recurring-revenue model, profit profile, significant operating leverage, capital allocation and dividend payments as offsets. Meanwhile, as crowdfunding is relatively nascent in the capital markets world, we expect the door will open for additional companies to use OTC's services. Our \$21 price target applies the 20x industry average for 2016 to our 2017 EPS forecast of \$1.04. In addition, we note the current dividend yield of 3.5%.

Company Overview

OTC Markets Group, Inc. was established in 1904 as the National Quotation Bureau, reporting quotations for stocks and bonds in paper form. In 1997, led by President and CEO R. Cromwell Coulson, a group of investors acquired the assets and in 2000 changed the name to Pink Sheets LLC and introduced a real-time electronic quotation service. In 2011, the company name was changed to OTC Markets Group.

Revenue derives from three main sources: broker-dealer subscriptions using the OTC Link, access to OTC's market data directly or through redistributors, and companies joining the OTCQX and OTCQB premium marketplaces and services.

OTC Markets Group services more than 10,000 companies through three market offerings (OTCQX Best Market, OTCQB Venture Market and Pink Open Market), each with varying services.

Mr. Coulson owns the majority of the 47% of shares held by insiders. There were 89 employees at the end of 2015.

Reg A+/Crowdfunding Growth Opportunity

In 2015, the SEC expanded Regulation A to help companies raise capital in the public markets through new rules classified as Regulation A+. Regulation A+ simplifies the process of seeking capital for companies looking to raise less than \$50 million of proceeds. The new rules provide a required set of disclosures to ensure that investors have information to properly make an investment decision. Smaller companies will have an easier pathway without the burdensome costs of going public.

In our opinion, OTCM is perfectly situated to benefit from Regulation A+, especially considering the size of the capital raising requirements. Regulation A+ falls under The Jumpstart Our Business Startups (JOBS) Act of 2012.

Within Regulation A+, non-accredited investors can now participate in IPOs; in combination with an easing in state security laws requiring registration in every state where securities are sold, this opened a pathway to so-called *crowdfunding*.

While early in the adoption of this new path to market for smaller companies, Elio Motors in February 2016 was first to list on the OTCQX Best Market, raising \$17 million via crowdfunding. We note that a number of crowdfunding platforms are being formed; in our view, this should set the stage for more companies using this pathway to raise capital. OTCM filed a Petition of Rulemaking with the SEC to extend Regulation A+ to SEC reporting companies.

Exemption Status A State-To-State Victory

OTC Markets Group in 2Q:16 announced Vermont was the sixth state to recognize an OTCM market for exemption status from Blue Sky laws. In addition to Vermont's recognition of OTCQX Best Market, Washington, Wyoming, Iowa and Rhode Island recognize OTCQX and OTCQB Venture Market under each state's Blue Sky exemption. Alaska is set to finalize in October 2016 an exemption for the OTCQX and OTCQB markets.

These state exemptions for OTC Markets Group basically acknowledge that the company's market requirements are a clear benchmark in terms of providing transparency for investors. With such exemptions, OTC Markets Group can help small companies come to market in an easier and more efficient manner. Currently, while all 50 states have

Blue Sky registration requirements, only 38 have manual exemption and OTC Markets Group is working to be recognized or designated under these exemption rules with more states over time.

A Market Service Provider, Not An Exchange

OTC Markets Group operates three markets and is similar in concept to an exchange-based product along the lines of NASDAQ Inc. (NASDAQ: NDAQ, NC), but is not technically an exchange. Although the business models are similar with respect to high subscription-based revenue, the big difference between the two is that OTC Markets Group does *not* host trading or clearinghouse offerings, but instead focuses on a data-driven platform to connect brokers and dealers, while sharing its data from the markets with various customer bases.

OTCM's Strategic Vision: Market Of Choice

The company's stated goal is to expand the world of investment opportunities by creating the financial markets of choice. By establishing the markets, OTC Markets Group brings together brokers and dealers, organizes markets, and enables investors to intelligently analyze, value, and trade securities from proprietary data. OTCM's markets bring the benefit of public trading to a wide spectrum of securities, efficiently fulfilling the capital formation needs for both U.S. and global companies.

OTC Markets Group's strategy is to operate a world-leading securities market that facilitates information sharing through open networks, fosters greater transparency, connects broker-dealers, organizes markets, and informs investors. OTC tries to deliver elegant, reliable and cost-effective subscription-based technology that is online, data-driven and social.

Through the OTC Link, the company directly links a diverse network of broker-dealers that provide liquidity and execution services for a wide spectrum of securities. OTC Markets Group organizes securities into three market types, based on various levels of disclosure and risk to better inform potential investors. The three markets are the *OTCQX Best Market*, *OTCQB Venture Market* and the *Pink Open Market*.

Three Key Revenue Channels

OTC Link accounted for 24% of revenue in 2015. OTC link, is a network-based model offering FINRA member broker-dealer subscribers with a greater choice of trading partners and control over their trading execution. As a SEC-registered ATS and FINRA member broker-dealer, OTC Link is subject to the direct regulatory oversight of the SEC and FINRA.

Due to OTC Link's role in the broker-dealer trading process, OTC Markets Group generates a significant amount of market data and information about companies. The data consists of real-time, delayed and end-of-day quotation and trading data, as well as security master data, company reference data and compliance data for OTCQX, OTCQB and Pink securities.

The *OTCQX Best Market* (448 securities at the end of 2Q:16) provides transparent and trusted public trading without the complexity and cost of a national securities exchange listing. Companies that meet high financial standards and disclosure requirements can have their securities qualify to trade on the OTCQX Best Market. OTCQX offers an efficient public trading market for established companies to inform investors, provide consistent disclosure, and demonstrate compliance with federal and state securities laws. Annual subscription fees are \$20,000 and are paid at the beginning of each calendar year. In December of 2015, OTCM introduced enhancements to its OTCQX Rules and raised pricing for joining the OTCQX from \$15,000, to \$20,000. The new rules, including the fee increase became effective January 1, 2016 for companies joining after that date. Companies on OTCQX as of December 31, 2015, continue to operate under the old rules and fee structure until January 1 2017. At the end of 2Q:16 approximately 8% of the current OTCQX companies would not meet requirements of the new rules.

The *OTCQB Venture Market* (932 securities at the close of 2Q:16) provides public trading for developing companies and applies standards that promote price transparency and facilitate public disclosure. OTCQB standards require companies to remain current in their reporting to the SEC or other applicable regulatory body and to provide additional information to investors. This additional information includes management certifications that specifically identify company officers, directors and controlling shareholders, as well as legal, accounting and investor relations advisors, and confirmation of shares outstanding and authorized. OTCQB standards include a minimum bid price test. Securities that do not maintain at least a penny bid price are downgraded to the Pink market.

Originally formed with SEC reporting companies and banks in mind, the OTCQB Venture Market is also open to international companies that trade in the U.S. that received one of various available exemptions from SEC registration; provide the information required by Rule 12g3-2(b) under the Exchange Act; and meet the applicable OTCQB standards. The OTCQB can efficiently serve a majority of companies listed on the TSX Venture, LSE AIM and other non-U.S. venture exchanges. The price to list on the OTCQB is \$10,000 annually, with renewal at any period within the year. Currently, about 40% of OTCQB clients are paying the introductory rate of \$7,500; this percentage will fall to zero by the end of April 2017.

Securities traded on the OTC Link that do not meet standards of the OTCQX Best Market or the OTCQB Venture Market trade on the more lightly regulated *Pink Open Market*. There currently are 8,352 securities on the Pink Market. Companies here are categorized as "Pink Current Information," "Pink Limited Information" or "Pink No Information," based on the completeness and timeliness of the information they provide to investors. Companies can use OTC Markets Group's OTC Disclosure & News Service® to make current information available to investors.

Products and Services

OTC Markets Group has three business lines (OTC Link, Market Data Licensing and Corporate Services) that provide a variety of products and services, including trading technologies for FINRA member broker-dealers, corporate services to issuers, and market data for broker-dealers, companies, investors and distributors.

Each business line offers a distinct fee structure designed with constituents in mind. OTC Link is subscription-based with usage-based fees; Corporate Services charges application and annual fees; and Market Data Licensing earns subscription fees. Growth in one particular business line tends to promote growth in the others because the services are complementary. Roughly 70% of revenue recurs and derives from subscriptions.

OTC Link

Wholly-owned subsidiary OTC Link LLC, a FINRA member and SEC-registered ATS, operates OTC Link. OTC Link serves a diverse community of FINRA member broker-dealers who operate as market makers, agency brokers and ATSS, including electronic communication networks (ECN). OTC Markets Group offers quotation and trade-messaging services that give broker-dealers control over trade and choice of counterparties so they can efficiently provide best execution, attract order flow, and comply with FINRA and SEC regulations. *This business line accounts for nearly 25% of annual revenue.*

Market Data Licensing

OTC Markets Group provides subscribers with access to the extensive market data, company data and security information that is collected through the OTC Link and Corporate Services businesses. Market data includes real-time, end-of-day and historical quotation, in addition to company financials, security master, corporate reference, and compliance data for securities traded on its markets.

A majority of market data revenue is derived from sales through redistributors such as Bloomberg, Interactive Data Corporation, Thomson Reuters (NYSE: TRI, NC) and Fidessa. At year-end 2015, 57 market data distributors were disseminating OTC Markets Group's market data to subscribers. *The Market Data Licensing business made up 41% of gross revenue (before redistribution fees) in 2015.*

Corporate Services

OTC Markets Group offers a host of services for publicly traded companies to help promote a more efficient market place through greater disclosure. OTCM offers a number of disclosure possibilities that are suited to each company's ability to disclose information publicly, and also offers news wire services and Blue Sky Monitoring Services

Companies have an incentive to provide high-quality and timely information. OTC Markets Group offers disclosure and information services via the OTCQX Best Market, OTCQB Venture Market and Pink Open Market. *Corporate Services generated 35% of revenue in 2015.*

Recent Results

Net revenue in 2015 increased 19%, from 2014, to \$47.5 million. The largest increase was at the Corporate Services segment, with sales up 78% to \$17.5 million, driven by a repricing of product in the OTCQB market category, which offered a premier-priced product and is perceived as a better market than the lower-tiered Pink Market.

In the OTCQB market, subscribers increased to 942 in 2015, from 311 in 2014. The Market Data segment also performed well, up 1%, driven by the use of professional and non-professional subscribers to information products. The OTC Link segment revenue decline of 2% was largely attributable to elimination of quote fees for OTCQX and OTCQB and lower trade message volume.

The operating margin improved to 35.5% in 2015, from 32.4% in 2014, as operating costs increased 14%, compared with 19% sales growth, highlighted new compensation structures and additional headcount (38% of spending and up 20% year over year). Information and Technology costs (about 10% of costs) increased 13%, year over year, in 2015. Given the operating leverage, net income rose 30% to \$9.9 million, leading to EPS of \$0.88, a 28% increase compared with \$0.69 in 2014.

Net revenue climbed 2%, year over year, to \$12.1 million in 2Q:16. The Market Data and Corporate Services segments were up a respective 1% and 10%, but OTC Link sales declined 9%. Strength in Corporate Services was driven by a full period impact of companies added over the prior twelve months. In the Market Data segment, a 1% revenue increase was driven by higher fees. The 9% decline at OTC Link primarily was due to retirement of OTCQuote.com and less subscription-based revenue.

The 2Q:16 operating margin of 34.2% fell 40 basis points, year over year, due to the slowdown in revenue growth and 4% and 20% respective increases in compensation and IT infrastructure spending. EBITDA of \$5 million increased 5% from \$4.9 million in 2Q:15. Net income of \$2.45 million was up 5%, compared with the prior-year period, resulting in a 5% increase in EPS to \$0.21.

Earnings Outlook

For 2016, we forecast net revenue growth of 4% to \$49.6 million, driven by a 13% increase in Corporate Services revenue stemming from a combination of new subscribers and repricing of annual subscription fees for the OTCQB product. We estimate the number of subscribers will remain roughly flat with the 942 at the close of 2015 at OTCQB and 424 at OTCQX. We forecast a 1% rise in Market Data segment revenue assuming annual price increases on service-based revenue. We forecast a 4% dip in OTC Link sales due to the elimination of quote fees.

We estimate the operating margin will improve to 36.0% in 2016, from 35.5% in 2015, with operating costs growing 3.5% compared with 4.1% net revenue growth. We forecast 5% annual EBITDA growth to \$21.2 million, a net income increase of 9% to \$10.9 million, from \$9.9 million in 2015, and EPS up 8% to \$0.95.

For 2017, we model 3% net revenue growth to \$50.8 million, driven largely by new firms participating on the company's three markets, as well as improved pricing for premium services; given easier comparisons, we forecast revenue growth for all three segments. We model the number of subscribers at the close of 2017 is 460, compared with an estimated 450 at yearend 2016, in the OTCQX and 950, up from 930 at the close of 2016, in the OTCQB. We forecast the operating margin will widen 190 basis points, year over year, to 37.9% in 2017 and EBITDA will rise 7% to \$22.6 million, compared with our 2016 estimate. We forecast net income and EPS increase 8% each to a respective \$11.8 million and \$1.04.

Balance Sheet and Cash Flow

At the end 2Q:16, OTCM had a cash balance of \$23.3 million (\$2.04 per share) and no debt. The company has a \$1.5 million line of credit with JPMorgan Chase (NYSE: JPM, NC), but no borrowings against it. The credit line was secured in July 2012 and extended multiple times.

OTC Markets Group is a strong cash generator, producing free cash flow of \$10.9 million (\$0.98 per share) in 2014 and \$16.2 million (\$1.43) in 2015, after annual capital spending of \$1.6 million and \$0.9 million, respectively. Our free cash flow forecasts are \$12.0 million (\$1.05) in 2016 and \$14.1 million (\$1.23) in 2017, reflecting our projection of net income growth each year and annual capital spending of \$873,000 in 2016 and \$1.15 million in 2017.

Strong cash flow and recurring revenue support the \$0.14 per share quarterly dividend; this equates to a 3.5% annual yield, compared with a peer average yield of about 1%. The company last raised the quarterly dividend in 2Q:15 to \$0.14 per share (from \$0.10). The prior increase was from \$0.06 per share (implemented in 2Q:14).

In addition to the regular dividend, the company issued respective \$0.50 and \$0.60 special per-share dividends in 4Q:14 and 4Q:15, or total dividend payments of \$9.1 million in 2014 and \$12.1 million in 2015. In total for the trailing 12 months, OTC Markets Group paid out \$1.12 per share of dividends, or an implied current yield of 7%. The special dividend is not mandatory or included in our forecasts; but besides organic growth opportunities, we think the company will consider special dividends each fourth quarter. Assuming no special dividends, we estimate annual dividend payments of \$6.3 million in 2016 and 2017.

Buybacks also are possible, in our view. The company has a 300,000 share repurchase authorization, adopted in 2011 and refreshed in 2015. The company repurchased 49,623 Class A shares at an average price of \$16.15 per in 1H:16, 58,200 at an average price of \$14.03 per in 2015 and 69,028 at an average of \$11.89 per in 2014. Our forecasts

exclude additional share repurchases.

Risks

Regulatory proposals, such as FINRA's QCF Proposal to create a Quotation Consolidation Facility (QCF), would serve as a commercial data consolidator and provide a national best bid or offer for OTC securities for inclusion in the NASDAQ UTP Level One fees. Adoption would likely hinder OTC Markets Group's revenue as securities would choose NASDAQ, instead of working with OTCM.

CEO Cromwell Coulson owns about 40% of the outstanding shares. With only about 53% float in the market, we view one's ability to buy or sell OTCM stock as a potential risk.

Valuation

OTCM is up 4% thus far in 2016, compared with a 1% increase in the Russell 2000 Index. Additionally, the stock was up 14% in 2015, outpacing the 2% increase in the Russell 2000. We note that OTCM's return excludes \$1.12 per share of trailing 12 months of dividends; this would add another 7% to the total return and 6.5% to the stock's performance in 2015.

OTCM trades at 17.8x and 16.4x our respective 2016 and 2017 EPS forecasts. In the last five years, OTCM ranged from 12x-21x forward EPS and averaged 16x. A group of comps in the corporate service-based industry trade from 17x-26x and average 20x based on 2016 estimates, and 15x-24x, with an average of 19x, based on 2017 EPS estimates. We attribute the wide valuation ranges for the peer group to the higher growth markets that some of these firms participate in (for example, MSCI and FDS), compared with the more mature markets that others address (for example, NDAQ and TRI).

Although we think a discount to the peers is warranted due to OTCM's lack of liquidity, we view OTCM's recurring revenue model, profit profile and capital allocation as viable offsets. In looking at the peer group, the average dividend yield is about 1.5%, compared with 3.5% for OTCM; including special dividends, the dividend yield would be about 7% for OTC Markets Group.

We highlight OTCM's ability to deliver significant operating leverage as exhibited by EPS growth in 2014 and 2015 and our EPS growth forecasts for 2016 and 2017. In addition, as the crowdfunding initiative is relatively new in the capital markets, we expect additional companies to utilize OTCM's services. Our \$21 price target is based on the 2016 peer group industry P/E average of 20x applied to our 2017 EPS forecast of \$1.04. We think this P/E assumption adequately recognizes the current dividend yield of 3.5%.

Exhibit 1. Corporate Service Stock Valuations													
Company	Ticker	Target	Current	TTM		Consensus Estimates				TTM Dividend		Consensus Estimates	
				EPS	PE	C2016		C2017		EV/EBITDA	EV/EBITDA		
MSCI, Inc.	MSCI	NC	\$89.98	\$2.71	33.2x	\$2.93	30.7x	\$3.47	25.9x	\$1.12	1.2%	11.1x	10.4x
Morningstar Inc.	MORN	NC	\$82.99	\$3.01	27.6x	\$3.04	27.3x	\$3.34	24.8x	\$0.88	1.1%		
FactSet Research	FDS	NC	\$178.54	\$6.19	28.8x	\$6.63	26.9x	\$7.08	25.2x	\$2.00	1.1%		
Nasdaq Inc	NDAQ	NC	\$71.27	\$3.59	19.9x	\$3.73	19.1x	\$4.25	16.8x	\$1.28	1.8%		
Thomson Reuters	TRI	NC	\$41.43	\$2.15	19.3x	\$2.01	20.6x	\$2.31	17.9x	\$1.36	3.3%	2.0x	2.0x
OTC Markets Group	OTCM	\$21.00	\$17.02	\$0.93	18.3x	\$0.94	18.1x	\$0.99	17.2x	\$0.56	3.3%	1,042.9x	984.6x

NC= Not Covered By Sidoti & Company, LLC. TTM= Trailing Twelve Months

Table 1. OTC Markets Group Inc., Income Statement																
(\$ in thousands, except where noted)																
	2014	Mar	June	Sep	Dec	2015	MarA	JuneA	SepE	DecE	2016E	MarE	JuneE	SepE	DecE	2017E
OTC Link	\$12,019	\$3,044	\$2,931	\$2,939	\$2,882	\$11,796	\$2,754	\$2,658	\$2,968	\$2,911	\$11,291	\$2,782	\$2,685	\$2,998	\$2,940	\$11,404
Market Data	20,334	5,233	5,169	5,087	5,120	20,609	5,325	5,237	5,138	5,171	20,871	5,432	5,342	5,241	5,275	21,288
Corporate Services	9,862	3,247	4,330	4,874	5,053	17,504	4,672	4,744	5,118	5,255	19,789	4,864	4,939	5,328	5,518	20,647
Total Revenue	\$42,215	\$11,524	\$12,430	\$12,900	\$13,055	\$49,909	\$12,751	\$12,639	\$13,224	\$13,337	\$51,951	\$13,077	\$12,965	\$13,566	\$13,732	\$53,340
Redistribution fees	2,388	600	600	602	577	2,379	593	584	622	587	2,385	628	622	638	604	2,492
Net Revenue	\$39,827	\$10,924	\$11,830	\$12,298	\$12,478	\$47,530	\$12,158	\$12,055	\$12,602	\$12,750	\$49,566	\$12,449	\$12,343	\$12,929	\$13,128	\$50,848
Compensation	15,632	4,958	4,763	4,684	4,311	18,716	5,237	4,967	4,761	4,535	19,499	5,231	4,862	4,613	4,394	19,099
IT Infrastructure	4,319	1,157	1,145	1,239	1,319	4,860	1,340	1,375	1,256	1,334	5,305	1,308	1,167	1,275	1,373	5,123
Professional fees	1,825	389	546	520	356	1,811	499	438	463	467	1,867	497	557	529	412	1,995
Marketing & Advertising	1,330	266	340	298	387	1,291	280	184	331	333	1,128	288	324	339	343	1,294
Occupancy costs	1,465	361	344	397	382	1,484	405	367	397	400	1,569	392	389	407	412	1,600
D&A	1,543	406	420	434	432	1,692	417	410	397	400	1,624	432	389	407	412	1,639
General and administrative	811	232	183	135	260	810	183	195	185	187	750	262	130	136	275	801
Total Operating Costs	\$26,925	\$7,769	\$7,741	\$7,707	\$7,447	\$30,664	\$8,361	\$7,936	\$7,789	\$7,656	\$31,741	\$8,408	\$7,818	\$7,706	\$7,621	\$31,553
Operating Income	\$12,902	\$3,155	\$4,089	\$4,591	\$5,031	\$16,866	\$3,797	\$4,119	\$4,814	\$5,095	\$17,824	\$4,041	\$4,525	\$5,223	\$5,507	\$19,295
Other incom: (costs)	9	16	7	6	0	0	(8)	4	0	(2)	(6)	(2)	(2)	(2)	(2)	(7)
Pretax Income	\$12,911	\$3,171	\$4,096	\$4,597	\$5,031	\$16,866	\$3,789	\$4,123	\$4,814	\$5,093	\$17,819	\$4,039	\$4,523	\$5,221	\$5,505	\$19,288
Income Taxes	(5,021)	(1,315)	(1,704)	(1,512)	(2,104)	(6,635)	(1,474)	(1,608)	(1,584)	(1,986)	(6,652)	(1,575)	(1,764)	(1,718)	(2,147)	(7,204)
Net Income	\$7,890	\$1,856	\$2,392	\$3,085	\$2,927	\$10,231	\$2,315	\$2,515	\$3,230	\$3,107	\$11,167	\$2,464	\$2,759	\$3,503	\$3,358	\$12,084
Less restricted stock	(\$253)	(\$58)	(\$67)	(\$88)	(\$75)	(\$288)	(\$63)	(\$63)	(\$63)	(\$63)	(\$252)	(\$63)	(\$63)	(\$63)	(\$63)	(\$252)
Net Income To Common	\$7,637	\$1,798	\$2,325	\$2,997	\$2,852	\$9,943	\$2,252	\$2,452	\$3,167	\$3,044	\$10,915	\$2,401	\$2,696	\$3,440	\$3,295	\$11,832
FD EPS	\$0.69	\$0.16	\$0.20	\$0.26	\$0.25	\$0.88	\$0.20	\$0.21	\$0.28	\$0.27	\$0.95	\$0.21	\$0.24	\$0.30	\$0.29	\$1.04
FD Shares Outstanding	11,138	11,421	11,435	11,368	11,292	11,289	11,440	11,431	11,431	11,431	11,431	11,431	11,431	11,431	11,431	11,431
Dividend	\$0.36	\$0.10	\$0.14	\$0.14	\$0.14	\$0.52	\$0.14	\$0.14	\$0.14	\$0.14	\$0.56	\$0.14	\$0.14	\$0.14	\$0.14	\$0.56
EBITDA	\$15,695	\$4,006	\$4,912	\$5,414	\$5,807	\$20,137	\$4,677	\$4,953	\$5,644	\$5,925	\$21,198	\$4,871	\$5,355	\$6,053	\$6,337	\$22,615
Growth Analysis																
Revenue YOY Growth	18.9%	15.6%	21.4%	19.5%	16.5%	18.2%	10.6%	1.7%	2.5%	2.2%	4.1%	2.6%	2.6%	2.6%	3.0%	2.7%
Adjusted Net Income YoY Growth	40.1%	11.5%	47.7%	59.3%	9.7%	29.7%	24.7%	5.1%	4.7%	6.1%	9.1%	6.4%	9.7%	8.5%	8.1%	8.2%
Adjusted FD EPS YoY Growth	35.4%	5.9%	43.1%	56.8%	9.0%	27.9%	24.5%	5.2%	4.1%	4.9%	7.8%	6.5%	9.7%	8.5%	8.1%	8.2%
Margin Analysis																
Operating Margin	32.4%	28.9%	34.6%	37.3%	40.3%	35.5%	31.2%	34.2%	38.2%	40.0%	36.0%	32.5%	36.7%	40.4%	41.9%	37.9%
EBITDA Margin	39.4%	36.7%	41.5%	44.0%	46.5%	42.4%	38.5%	41.1%	44.8%	46.5%	42.8%	39.1%	43.4%	46.8%	48.3%	44.5%
Adjusted Profit Margin	18.7%	16.1%	19.2%	23.9%	22.4%	20.5%	18.2%	19.9%	24.4%	23.3%	21.5%	18.8%	21.3%	25.8%	24.5%	22.7%
Tax Rate	38.0%	41.5%	41.6%	32.9%	41.8%	39.3%	38.9%	39.0%	32.9%	39.0%	37.3%	39.0%	39.0%	32.9%	39.0%	37.3%

Sources: Company reports, Sidoti & Company, LLC estimates

Table 2. OTC Markets Group Inc., Statement of Cash Flows

(\$ in thousands except where noted)

	2014	Mar	June	Sep	Dec	2015	MarA	JuneA	SepE	DecE	2016E	MarE	JuneE	SepE	DecE	2017E
Operating Activities																
Net Income	\$7,890	\$1,856	\$2,391	\$3,085	\$2,926	\$10,258	\$2,315	\$2,515	\$3,230	\$3,107	\$11,167	\$2,464	\$2,759	\$3,503	\$3,358	\$12,084
Depreciation & amortization	1,543	406	420	433	433	1,692	417	410	410	410	1,647	410	410	410	410	1,640
Provision for bad debts	190	74	31	(30)	24	99	3	(10)	0	0	(7)	0	0	0	0	0
Share based compensation	1,241	429	396	383	344	1,552	471	420	420	420	1,731	420	420	420	420	1,680
Excess tax benefit	(676)	(371)	(75)	(20)	(91)	(557)	(430)	(53)	0	0	(483)	0	0	0	0	0
Deferred rent	(178)	(50)	(49)	(64)	(54)	(217)	49	52	0	0	101	0	0	0	0	0
Deferred income taxes	33	(100)	(95)	(86)	78	(203)	(111)	(92)	0	0	(203)	0	0	0	0	0
Change in Operating Assets & Liabilities	\$10,047	\$2,244	\$3,019	\$3,701	\$3,661	\$12,625	\$2,714	\$3,242	\$4,060	\$3,937	\$13,953	\$3,294	\$3,589	\$4,333	\$4,188	\$15,404
Net Change in Working Capital	2,455	38	1,075	(1,048)	4,417	4,482	(1,902)	(969)	1,818	(31)	(1,084)	(36)	(36)	(38)	(43)	(153)
Net Cash Provided by Operations	\$12,502	\$2,282	\$4,094	\$2,653	\$8,078	\$17,107	\$812	\$2,273	\$5,878	\$3,906	\$12,869	\$3,258	\$3,553	\$4,296	\$4,145	\$15,251
Investing Activities																
Capital expenditures	(1,582)	(488)	(124)	(249)	(79)	(940)	(150)	(23)	(300)	(400)	(873)	(150)	(300)	(300)	(400)	(1,150)
Net Cash Provided by Investing Activities	(\$1,582)	(\$488)	(\$124)	(\$249)	(\$79)	(\$940)	(\$150)	(\$23)	(\$300)	(\$400)	(\$873)	(\$150)	(\$300)	(\$300)	(\$400)	(\$1,150)
Financing Activities																
Dividends	(9,109)	(1,123)	(1,120)	(1,567)	(8,284)	(12,094)	(1,577)	(1,578)	(1,578)	(1,578)	(6,311)	(1,578)	(1,578)	(1,578)	(1,578)	(6,312)
Proceeds from stock options	66	0	0	0	81	81	0	0	0	0	0	0	0	0	0	0
Restricted stock	1	(40)	(68)	17	91	0	(47)	(45)	0	0	(92)	0	0	0	0	0
Withholding taxes paid	(386)	0	0	0	(241)	(241)	0	0	0	0	0	0	0	0	0	0
Excess tax benefits	676	371	75	20	91	557	430	53	0	0	483	0	0	0	0	0
Purchase of treasury stock	(832)	(167)	0	(462)	(188)	(817)	(748)	(54)	0	0	(802)	0	0	0	0	0
Net Cash Provided by Financing	(\$9,584)	(\$959)	(\$1,113)	(\$1,992)	(\$8,450)	(\$12,514)	(\$1,942)	(\$1,624)	(\$1,578)	(\$1,578)	(\$6,722)	(\$1,578)	(\$1,578)	(\$1,578)	(\$1,578)	(\$6,312)
Net Cash Increase (decrease) in cash	\$1,336	\$835	\$2,857	\$412	(\$451)	\$3,653	(\$1,280)	\$626	\$4,000	\$1,928	\$5,274	\$1,530	\$1,675	\$2,418	\$2,167	\$7,789
Beginning cash balance	18,936	20,272	21,107	23,964	24,376	20,272	23,925	22,645	23,271	27,271	23,925	29,199	30,729	32,404	34,822	29,199
Ending Cash Balance	\$20,272	\$21,107	\$23,964	\$24,376	\$23,925	\$23,925	\$22,645	\$23,271	\$27,271	\$29,199	\$29,199	\$30,729	\$32,404	\$34,822	\$36,988	\$36,988
CFFO	\$12,502	\$2,282	\$4,094	\$2,653	\$8,078	\$17,107	\$812	\$2,273	\$5,878	\$3,906	\$12,869	\$3,258	\$3,553	\$4,296	\$4,145	\$15,251
CapEx	(1,582)	(488)	(124)	(249)	(79)	(940)	(150)	(23)	(300)	(400)	(873)	(150)	(300)	(300)	(400)	(1,150)
Free Cash Flow	\$10,920	\$1,794	\$3,970	\$2,404	\$7,999	\$16,167	\$662	\$2,250	\$5,578	\$3,506	\$11,996	\$3,108	\$3,253	\$3,996	\$3,745	\$14,101
FCF / Share	\$0.98	\$0.16	\$0.35	\$0.21	\$0.71	\$1.43	\$0.06	\$0.20	\$0.49	\$0.31	\$1.05	\$0.27	\$0.28	\$0.35	\$0.33	\$1.23

Sources: Company reports, Sidoti & Company, LLC estimates

Table 3. OTC Markets Group Inc., Balance Sheet

(\$ in thousands except where noted)

	2014	Mar	June	Sep	2015	MarA	JuneA	SepE	2016E	MarE	JuneE	SepE	2017E
ASSETS													
Current Assets													
Cash	\$20,272	\$21,107	\$23,964	\$24,376	\$23,925	\$22,645	\$23,271	\$27,271	\$29,199	\$30,729	\$32,404	\$34,822	\$36,988
Receivables	5,674	5,469	5,681	5,661	6,082	6,299	5,104	5,477	5,507	5,541	5,576	5,612	5,654
Prepaid income taxes	523	2,099	1,838	1,745	22	1,989	1,480	1,480	1,480	1,480	1,480	1,480	1,480
Prepaid expenses	1,395	61	566	278	1,520	73	830	723	727	732	736	741	747
Deferred tax asset	177	177	177	177	187	187	187	187	187	187	187	187	187
Total Current Assets	\$28,041	\$28,913	\$32,226	\$32,237	\$31,736	\$31,193	\$30,872	\$35,139	\$37,100	\$38,669	\$40,383	\$42,842	\$45,056
PP&E	4,357	4,304	4,168	3,873	3,507	3,240	2,853	2,743	2,733	2,473	2,363	2,253	2,243
Non-current deferred tax asset	277	377	472	558	470	581	673	673	673	673	673	673	673
Goodwill	251	251	251	251	251	251	251	251	251	251	251	251	251
Intangible assets	40	40	40	40	40	40	40	40	40	40	40	40	40
Security deposits	210	210	210	210	210	210	210	210	210	210	210	210	210
Total Assets	\$33,176	\$34,095	\$37,367	\$37,169	\$36,214	\$35,515	\$34,899	\$39,056	\$41,007	\$42,316	\$43,920	\$46,269	\$48,473
Liabilities													
Accounts payable	562	369	752	780	616	512	324	517	520	523	526	529	533
Income tax payable	0	2,212	2,987	3,839	92	1,841	0	0	0	0	0	0	0
Accrued expenses	3,888	314	91	60	4,355	838	2,912	2,912	2,912	2,912	2,912	2,912	2,912
Deferred revenue	9,521	10,665	11,323	8,860	12,737	12,942	10,829	12,721	12,721	12,721	12,721	12,721	12,721
Current Liabilities	\$13,971	\$13,560	\$15,153	\$13,539	\$17,800	\$16,133	\$14,065	\$16,150	\$16,153	\$16,156	\$16,159	\$16,162	\$16,166
Deferred rent	391	331	272	208	139	240	303	303	303	303	303	303	303
Income tax reserve	563	627	691	695	728	751	829	829	829	829	829	829	829
Total Liabilities	\$14,925	\$14,518	\$16,116	\$14,442	\$18,667	\$17,124	\$15,197	\$17,282	\$17,285	\$17,288	\$17,291	\$17,294	\$17,298
Shareholders' Equity													
Class A	113	114	114	114	114	116	116	116	116	116	116	116	116
Class C	1	1	1	1	1	1	1	1	1	1	1	1	1
Additional paid-in cap	8,838	9,597	10,000	10,420	10,786	11,638	12,066	12,066	12,066	12,066	12,066	12,066	12,066
Retained earnings	10,752	11,485	12,756	14,274	8,916	9,654	10,591	12,663	14,612	15,917	17,518	19,864	22,064
Treasury shares	(1,453)	(1,620)	(1,620)	(2,082)	(2,270)	(3,018)	(3,072)	(3,072)	(3,072)	(3,072)	(3,072)	(3,072)	(3,072)
Total Stockholders' Equity	\$18,251	\$19,577	\$21,251	\$22,727	\$17,547	\$18,391	\$19,702	\$21,774	\$23,723	\$25,028	\$26,629	\$28,975	\$31,175
Total Liabilities & Stockholders' Equity	\$33,176	\$34,095	\$37,367	\$37,169	\$36,214	\$35,515	\$34,899	\$39,056	\$41,007	\$42,316	\$43,920	\$46,269	\$48,473
Key Metrics													
ROA	23.8%	5.5%	6.7%	8.3%	28.3%	6.5%	7.1%	8.7%	27.2%	5.9%	6.4%	7.8%	24.9%
ROE	43.2%	9.8%	11.7%	14.0%	58.3%	12.9%	13.2%	15.6%	47.1%	10.1%	10.7%	12.6%	38.8%
ROIC	49.3%	18.4%	14.6%	14.3%	56.8%	19.7%	15.0%	13.1%	49.3%	13.3%	10.8%	9.4%	36.1%
Cash per share	\$1.82	\$1.85	\$2.10	\$2.14	\$2.12	\$1.98	\$2.04	\$2.39	\$2.55	\$2.69	\$2.83	\$3.05	\$3.24

Sources: Company reports, Sidoti & Company, LLC estimates

Appendix Required Disclosures

Required Disclosures

OTC Markets Group Inc. (OTCM-\$17.05) NR Price Target: \$21 September 1, 2016

Rating and Price Target History Table



Risks

Regulatory proposals, such as FINRA's QCF Proposal to create a Quotation Consolidation Facility (QCF), would serve as a commercial data consolidator and provide a national best bid or offer for OTC securities for inclusion in the NASDAQ UTP Level One fees. Adoption would likely hinder OTC Markets Group's revenue as securities would choose NASDAQ, instead of working with OTCM.

CEO Cromwell Coulson owns about 40% of the outstanding shares. With only about 53% float in the market, we view one's ability to buy or sell OTCM stock as a potential risk.

Valuation

OTCM is up 4% thus far in 2016, compared with a 1% increase in the Russell 2000 Index. Additionally, the stock was up 14% in 2015, outpacing the 2% increase in the Russell 2000. We note that OTCM's return excludes \$1.12 per share of trailing 12 months of dividends; this would add another 7% to the total return and 6.5% to the stock's performance in 2015.

OTCM trades at 17.8x and 16.4x our respective 2016 and 2017 EPS forecasts. In the last five years, OTCM ranged from 12x-21x forward EPS and averaged 16x. A group of comps in the corporate service-based industry trade from 17x-26x and average 20x based on 2016 estimates, and 15x-24x, with an average of 19x, based on 2017 EPS estimates. We attribute the wide valuation ranges for the peer group to the higher growth markets that some of these firms participate in (for example, MSCI and FDS), compared with the more mature markets that others address (for example, NDAQ and TRI).

Although we think a discount to the peers is warranted due to OTCM's lack of liquidity, we view OTCM's recurring revenue model, profit profile and capital allocation as viable offsets. In looking at the peer group, the average dividend yield is about 1.5%, compared with 3.5% for OTCM; including special dividends, the dividend yield would be about 7% for OTC Markets Group.

We highlight OTCM's ability to deliver significant operating leverage as exhibited by EPS growth in 2014 and 2015 and our EPS growth forecasts for 2016 and 2017. In addition, as the crowdfunding initiative is relatively new in the capital markets, we expect additional companies to utilize OTCM's services. Our \$21 price target is based on the 2016 peer group industry P/E average of 20x applied to our 2017 EPS forecast of \$1.04. We think this P/E assumption adequately recognizes the current dividend yield of 3.5%.

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Appendix Continued

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Appendix Continued

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