

November 22, 2024

OTC MARKETS GROUP INC. (OTCQX: OTCM)

New York-based OTC Markets Group Inc. operates regulated markets for trading more than 12,000 U.S. and international securities. The company has three business lines: OTC Link, which operates Securities and Exchange Commission-regulated (SEC-regulated) alternative trading systems, providing trading services to broker-dealer subscribers including quotation, messaging, and trade execution and reporting services; Market Data Licensing, which provides actionable market and compliance data for a wide spectrum of securities via licenses to its subscribers; and Corporate Services, which operates the OTCQX® and OTCQB® markets and provides services to client companies designed to promote public disclosures, transparency, and communications with investors.

COMPANY HIGHLIGHTS

- * **Diversified Product Mix:** In our view, OTC Markets Group has built a robust suite of complementary, technology-driven products and services that impact a wide array of stakeholders across the financial markets value chain. The company serves broker-dealers, investors, traders, financial institutions, companies, accountants, regulators, and advisors.
- * **Strong Subscription-Based Renewal Rates:** Importantly, much of the company's revenue is derived from subscriptions, which accounted for 85% of gross revenue in 2023. Historically, among eligible companies, renewals for the OTCQX® and OTCQB® markets have seen retention rates above 90%, which we think mitigates some of the cyclical volatility across various financial market conditions and provides a floor for its operational results during challenging market conditions.
- * **Robust Cash Generation and Investor Returns:** We view positively OTCM's history of strong cash-flow generation, which has supported a shareholder-friendly strategy of returning capital to investors through regular and special dividends and share repurchases. Since the beginning of 2021, the company has returned more than \$100 million through these two actions, including special dividends of \$1.50 per share in each of the past four years.

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KEY STATISTICS

Key Stock Statistics

Recent price (11/21/24)	\$53.50
Fair Value Estimate	\$65.00
52 week high/low	\$60.16 - \$45.00
Shares outstanding (M)	11.9
Market cap (M)	\$636.7
Dividend	\$0.72
Yield	1.3%

Sector Overview

Sector	Financial
Sector % of S&P 500	13.4%

Financials (\$M, as of 9/30/24)

Cash/Equivalents/ST Inv	37.9
Debt	NA
Working Capital (\$M)	17.6
Current Ratio	1.5
Total Debt/Equity (%)	NA
Payout Ratio (%)	32%
Gross Revenue (M) TTM	110.2
Net Income (M) TTM	26.9
Net Margin TTM	24.4%

Risk

Beta	0.50
Inst. ownership	9%

Valuation

P/E forward EPS	20.6
Price/Sales (TTM)	5.8
Price/Book	17.3

Top Holders

T. Rowe Price Group, Inc.
Horizon Kinetics LLC
Royce & Associates LP

Management

President/CEO	Mr. Cromwell Coulson
CFO	Ms. Antonia Georgieva
General Counsel/COS	Mr. Daniel Zinn
Company website	https://www.otcm Markets.com

PRICE CHART



COMPANY SPONSORED REPORT. SEE LAST PAGE FOR DISCLOSURES.

- * **New Products Support Platform Growth:** We are encouraged by OTCM's technology infrastructure and capabilities that have enabled new products that can better serve its broker-dealer network. The company is introducing new services into its OTC Link unit, including overnight trading capabilities for global securities as well as providing closing auction functionality to its subscribers. In 2022, its Data Licensing segment expanded through the acquisition of Blue Sky Data Corp. and EDGAR® Online, which we see building scale into the product suite.
- * **Fair Value:** The shares currently trade at a discount to the peer group of financial equity exchange operators and data providers, which we attribute largely to a modest near-term revenue-growth outlook. However, we see the company's operational execution, strong balance sheet, and inherent EPS leverage (with around 12 million shares outstanding) as long-term value drivers. Based on our forward P/E analysis, we see a fair value of \$65.00 per share.

COMPANY/INDUSTRY BACKGROUND

OTC Markets Group Inc., through its predecessor entities, was founded in 1904 and operates regulated markets for trading more than 12,000 U.S. and international securities. The company, formerly known as Pink OTC Markets Inc., changed its name to OTC Markets Group Inc. in January 2011. It has evolved from a traditional bulletin board known for publishing price quotations on a specific group of equities into a technology-focused provider of a suite of predominantly subscription-driven solutions that seek to create better-informed and more-efficient markets through the sharing of information widely through open networks that foster transparency, connect broker-dealers, organize markets, and inform investors.

Importantly, OTC Markets' primary trading platform facilitates a broker-dealer network, rather than operating a centralized matching engine, and, thus, has inherent differences to exchanges, including those related to regulation and liquidity among traded issues.

Its operating segments are organized into three divisions: OTC Link (trading services), Market Data Licensing, and Corporate Services (OTCQX®, OTCQB®, and other services). In 2023, these groups accounted for 18%, 39%, and 43% of gross revenues, respectively. During the first nine months of 2024, these groups contributed 19%, 40%, and 41%, respectively.

In our view, OTC Markets Group may benefit from each of these units under certain market conditions. For example, across 2021, OTC Link drove first-half results due to higher trading volumes and retail investor participation in over-the-counter equity markets, while Corporate Services drove second-half results upon

the implementation of amendments to SEC Rule 15c2-11 that led many subscribing companies to update their disclosures in order to maintain public broker-dealer quotations on their securities.

As trading volumes moderated in 2022, Corporate Services continued to benefit from strong market and disclosure subscriptions. In 2023, Market Data Licensing drove revenue growth, increasing by 19% and supported by acquisitions and professional subscriber growth.

The OTC Link business began as a bulletin board for the publication of quotations on securities and historically operated only as a subscription-based system that later registered an alternative trading system (ATS), OTC Link ATS, where attributable quotes are displayed and messages delivered, enabling direct trades between dealers. In 2018, OTC Link launched its electronic communication network (ECN) named OTC Link ECN, an anonymous order-matching engine and an order router, functioning as the executing party on an agency basis, thus facilitating the matching of buy and sell orders. Under this product, OTC Markets Group receives a fee from, or pays a rebate to, broker-dealer subscribers based on per share executions, depending upon whether orders provide or remove liquidity.

As of September 30, 2024, OTC Link had 80 broker-dealer subscribers on OTC Link ATS, below the 87 in the year-earlier period, while OTC Link ECN had 114, up from 108 in the same period in 2023. In aggregate, OTC Link had 139 unique subscribers as of September 30, 2024 compared with 136 at the same year-ago period.

OTC Link contributed 18% of total gross revenue in 2023, versus 20% in 2022 and 29% in 2021. We view the 2021 results as an outlier, amid much-higher trading volumes executed through OTC Link ECN (an average of 48,000 transactions per day, with an all-time average daily high of over 70,000 in the first quarter). However, volume trends have since normalized in the 30,000-36,000 daily transactions range since 2022, amid lower retail participation in the market. Across the first nine months of 2024, volumes have been at the high end of this range. This has impacted total dollar volume traded in OTCQX®/OTCQB®/Pink® securities, which declined by more than 20% in both 2022 and 2023, but has increased by 28% over the first nine months of 2024, compared to the prior-year period. Transaction revenues drive a higher percentage of OTC Link revenues than the more-stable license base. In August 2024, OTC Markets Group paid \$1.2 million in a settlement with the SEC related to its processes in filing suspicious activity reports. The company has upgraded these policies as part of market-integrity programs already in place.

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PEER COMPARISON

Company	Ticker	Recent Price (\$)	52-Week High (\$)	52-Week Low (\$)	Mkt. Cap (\$MIL)	1-yr Price Change (%)	1-yr Rev Growth (%)	1 YR EPS Growth (%)	P/E Ratio	Beta	Yield (%)
OTC MARKETS GROUP INC	OTCQX: OTCM	53.50	60.16	45.00	637	-10	5	NM	23.5	0.50	1.3%
INTERCONTINENTAL EXCHANGE INC	NYSE: ICE	158.35	167.99	111.82	90921	40	10	62	37.8	1.09	1.2%
NASDAQ INC	NASDAQ: NDAQ	80.88	81.13	53.62	46486	48	NM	NM	38.9	0.96	1.2%
LONDON STOCK EXCHANGE GROUP PLC	LSE: LSEG	109.30*	110.65*	86.49*	57930*	26	8	NM	72.5	0.40	1.1%

*Stock Statistics in British Pound (GBP)

As OTC Link's predecessor trading system reached critical mass by expanding its market presence and the level of market and trading data conducted over its platform, OTC Markets Group built a separate and higher-margin business unit around the selling of relevant market data generated by its platform to its subscribers.

OTC Markets' Market Data Licensing unit packages data on a subscription basis to both professional and retail investors. This data can be priced per enterprise or per user and can be used internally or redistributed to third parties. In 2023, Market Data Licensing accounted for 39% of gross revenues, up from 35% in 2022. The unit has been bolstered in recent years by the acquisitions of Blue Sky Data and EDGAR® Online, which contributed to the increase in revenue contribution.

The company's third operating unit, Corporate Services, accounted for 43% of gross revenues in 2023, compared with 45% in 2022. This unit is built upon the foundation of allowing companies to demonstrate their compliance with securities laws and helping investors to better assess the level of risk exposure. To support this goal, the company has tiered the securities of the companies quoted on its system, based primarily on the adequacy and timeliness of disclosures, financial criteria, and adherence to governance standards.

Its OTCQX® Best Market and OTCQB® Venture Market designations provide access to public trading in the United States at a cost-effective price (as of January 2024, effective annual fees were \$25,500 for OTCQX® and \$15,600 for OTCQB®), compared with a listing on a registered national securities exchange such as Nasdaq, which can cost more than \$100,000.

In order to secure an OTCQX® designation, companies must meet high financial standards, have recognized corporate governance standards, and provide timely public disclosures. The OTCQB® designation provides a public trading facility for more-nascent companies while still meeting standards promoting price transparency and public disclosure, including audited financial statements, to investors. A third designation, the Pink® Open Market, comprises those securities quoted on the OTC Link ATS that do not meet the standards of, or choose not to apply for, premium market designations.

In July 2025, OTC Markets Group plans to launch a new classification, OTCID™ for current Pink® companies that meet minimal standards for current information and management certifications, but do not qualify for OTCQX® or OTCQB®. We see this enabling better differentiation between Pink® companies which, in aggregate, comprise approximately 85% of quoted securities over OTC Markets' platform, and expect an incremental revenue opportunity for those companies eligible for OTCID™ over the lower standard Pink® Limited Market or the Expert Market.

In our view, the enhanced member roster of global companies has contributed to an improved perception among investors of a more technology-focused company and marketplace for higher-quality companies, as historically, the company had been viewed as the "pink sheets" and a more speculative company marketplace. The company has cited that approximately 2,600 of the companies on its markets (approximately 20% of the total) recently had market capitalizations over \$1 billion and accounted for nearly 85% of total trading dollar volumes.

INVESTMENT THESIS

We believe a key driver of OTC Market Group's value proposition is its predominantly subscription-based revenue structure, which we think limits volatility, promotes stable cash-flow generation, and provides a floor to operating results during periods of macro-economic volatility. In 2023, subscriptions accounted for 85% of gross revenues, compared with 82% in 2022.

In addition, we see the company utilizing technology to invest in new product offerings through which it can build scale, drive operational efficiencies, and align operating costs with revenues while providing value to its clients. In recent years, the company has enhanced functionality within its trading systems, including the ECN platform that was launched in 2018. The company has also automated many technology processes to better leverage its human capital and scale its sales functions into other high-growth areas. Recently, it realigned its corporate sales team to better support enrollment and reach among current and potential corporate issuers in key North American, European, and Asian markets.

Over the next few years, we expect OTC Link to contribute around 20% of gross revenues. We note that OTC Link's total addressable market growth is more limited, as the platform is already utilized by the market's most-active broker-dealers. That said, we see OTCM continuing to invest in the platform's technology and functionality to expand market share, such as through new trading systems including OTC Link NQB, which was launched late in 2021 and operates in the same way as OTC Link ECN but with full disclosure, rather than anonymity, and allowing distribution of the full depth of book data. More recently, OTCM added closing cross-functionality on its matching engine, enabling subscribers to send auction-eligible orders and have this closing auction data included in the OTC Link NQB market data feed, matching functionality available in other markets.

To capitalize on the globalization of equity markets, as American depositary receipts (ADRs) and ordinary shares of non-U.S. companies comprise nearly 85% of dollar volume across OTCM's markets, OTC Markets Group recently launched OTC Overnight in September 2024 for a select group of active securities. This new tool can allow subscribing broker-dealers to trade thousands of OTC equity securities over OTC Link NQB Sunday through Thursday between 8:00 p.m. to 4:00 a.m. Eastern time, spanning overnight in the U.S., Asian market hours, and the opening of European markets. This new feature will use existing technology and client infrastructure to enhance the scale of OTC Link. We also think this will be attractive to foreign companies that look to enhance trading activity by investors during their local market hours. In addition, in November 2024, OTC Link launched its MOON ATS for overnight trading of National Market System (NMS) securities, making OTC Markets Group one of the first ATS operators offering broker-dealer subscribers the ability to trade both OTC equity and exchange-listed NMS securities overnight.

In our view, OTC Markets Group is executing on a growth strategy increasingly focused on financial data, including data captured across its own user base, which can represent a value-add to its professional investor base and provide opportunities for product cross-selling. Similar to its other operating units, Market Data Licensing has seen declines among nonprofessional users

amid lower retail investor participation in the market since 2021, although subscription growth from professional users and enterprise customers has more than offset these declines.

As of September 30, 2024, OTC Markets Group had 57 subscriptions to its Compliance Data or Compliance Analytics products, up from 56 in the comparable 2023 period. We are encouraged by OTC Markets' investment in the growth of the Market Data Licensing unit, which has helped broker-dealer subscribers automate processes, including compliance and risk management, further embedding the offering into professionals' workflow.

Over the past few years, OTCM has acquired products that are complementary to its core offerings and build out its licensing offering. In May 2022, it purchased the assets of Blue Sky Data, a provider of equity and debt state-law compliance data that added an attractive installed customer base of approximately 30 subscription contracts. This product enables OTC Markets to provide broker-dealer subscribers and public companies a better understanding of relevant state-level "Blue Sky" laws that govern whether a broker-dealer can recommend a security, often based on the company's public disclosures. OTC Markets is pursuing recognition in all 50 U.S. states and four territory jurisdictions. As of November 1, 2024, 40 states and Puerto Rico have recognized its OTCQX®/OTCQB® markets.

In November 2022, OTC Markets Group acquired the EDGAR® Online business, which provides SEC data and compliance tools, from Donnelley Financial LLC for a total consideration of \$3.5 million, subject to certain adjustments. On a strategic level, we see the EDGAR® Online business expanding OTCM's Market Data Licensing offering, adding SEC reporting data to the issuer data currently provided through the company's Disclosure and News Service® (DNS) and enabling OTC Markets to expand its distribution channels. OTC Markets had been a long-time EDGAR® Online customer, which we think provides actionable insights on how the data and analytical products can provide value to its enterprise customer base.

Although we expect full implementation to take several years and require capital investment to bring it to cash-flow-positive status, the technology platform to date has been successfully migrated to OTC Markets' cloud environment and the data is embedded into OTC Markets' issuer compliance and disclosure digitalization and SEC Rule 15c2-11 disclosure processes.

Over the longer term, we expect the EDGAR® business, which has seen some subscriber cancellations since the acquisition and had approximately 480 subscribers as of September 30, 2024, to emerge as a core offering in the Market Data Licensing segment and contribute to a scalable, robust offering in an integrated enterprise license subscriber model.

As mentioned earlier, we see the OTC Overnight global trading capabilities enhancing the attractiveness of OTCM's Corporate Services unit and its goal to increase the number of securities, asset classes, and trading functionality on its markets. In our view, these capabilities can support the number of companies on OTCQX®/OTCQB®, which has been soft recently due to an increase in the number of companies falling out of compliance, amid challenging equity markets. Over the longer term, we view foreign issuers having the ability to leverage home

disclosures and access to U.S. retail investors as key factors for this expansion.

We view positively strong retention rates among companies in compliance with the respective markets' rules and standards (93% for 2024, after several years in the 95%-96% range for OTCQX® and, historically, more than 90% of OTCQB® companies). Further, we view positively that OTC Markets has maintained pricing power over these services, despite volatility across the market and a challenging capital-raising environment for many small-cap companies.

Over the past few years, client activity has been more volatile than normal, due first to the enactment of amendments to SEC Rule 15c2-11 in September 2021 that set minimum current disclosure standards for companies to continue to be quoted on broker-dealer networks, such as OTC Link. This led to an increase in corporate subscriptions to OTC Markets' DNS and more companies applying for OTCQX®/QB® designation.

However, since 2022 and amid broader economic challenges (including rising interest rates that impacted borrowing and funding and global geopolitical concerns), member noncompliance and nonrenewals have reversed the trend in new net client additions.

Despite recent declines in the number of OTCQX® clients, the 566 clients as of September 30, 2024, is on par with the 570 clients at the end of 2021. Similarly, the 1,062 OTCQB® companies at September 30, 2024, were below year-end 2021 levels but still well above 2020 year-end levels near 900.

Another key driver has been the expansion of the international client base, which the company estimates comprises close to 80% of the securities traded on its markets and generates over 80% of the overall dollar volume. The international client count increased by 30% for OTCQX® and nearly doubled for OTCQB® in 2021, though market volatility has contributed to moderating growth since 2022, particularly challenging the lesser-capitalized segment of the market. Both OTCQX® and OTCQB® have seen declines in new international client additions in 2022, 2023 and the first nine month of 2024.

Along with fewer new companies joining OTCQX®/QB® and fewer IPOs in general, there were nearly 50% fewer companies in 2023 that graduated to national securities exchanges (at 38 compared with 74 in 2022, which itself was 50% lower than the 155 seen in 2021). This rate of decline has moderated, with 26 graduations during the first nine months of 2024, compared with 30 in the same year-ago period, representing a 13% decline. With interest rates starting to be lowered during 2024 and more favorable IPO activity seen across the year, we would expect some normalization of net additions among international companies, a return to compliance for more companies previously on OTCQX®/OTCQB®, and graduations over time.

Over the longer-term, we believe the December 2022 passage of The Employee Stock Ownership Plan (ESOP) Fairness Act — a part of the Biden Administration's SECURE Act 2.0 — will enhance the attractiveness of the OTCQX® offering. This law includes a provision, which becomes effective in 2028, that places qualified OTC-traded companies that meet established financial and disclosure standards, such as those with OTCQX® designation, on par with exchange-listed companies, enabling them to fully access public company employee stock ownership plan benefits.

RECENT DEVELOPMENTS

OTC Markets Group shares trade under ticker symbol OTCM and have OTCQX designation. In 2023, the shares increased by 2%, compared with a 24% increase for the S&P 500.

Year-to-date in 2024, the shares have declined by 3%, compared with a 25% increase for the S&P 500.

In November 2024, OTC Markets Group reported third-quarter 2024 results, which saw 1% gross revenue growth over the prior-year period to \$27.4 million, and EPS of \$0.61, consistent with the same year-ago period. OTC Link revenues increased by 16%, driven by higher share volumes traded, accounting for 19% of total revenues. Market Data License revenues (40% of the total) declined by 1%. Corporate Services revenues (41% of total revenues) declined by 2%.

In November 2024, OTC Markets Group announced the official launch of MOON ATS™, which will offer access to National Market System (NMS) securities listed on major exchanges during the overnight session. As a result, OTC Markets Group is one of the first ATS operators offering broker-dealer subscribers the ability to trade both OTC equity and exchange-listed NMS securities overnight.

In October 2024, OTC Markets Group announced that in July 2025, it plans to transform the Pink® Current market into a new market, OTCID™, which will provide a basic reporting market for companies that are current in their ongoing disclosure, and have management certifications and timely share data, as part of their US investor interactions.

In September 2024, OTC Markets launched OTC Overnight, a new offering that expands accessibility and market data coverage and trading, initially for a select group of OTC equity securities during Asian market hours, at European market open, and overnight in the U.S. between Sunday and Thursday.

In May 2024, OTC Markets Group launched closing auction functionality on OTC Link ECN/NQB, which enables subscribers to send auction eligible orders and have the closing auction data included in OTC Link NQB market data feeds.

In August 2023, OTC Markets announced that its market data feeds became available on Nasdaq's Data Link platform, which we see expanding OTC Markets' reach for its more than 12,000 international and domestic trading securities.

In May 2023, FINRA granted OTC Link's application to update its membership agreement to permit it to facilitate transactions in digital asset securities, which may enable OTC Link subscribers to quote and trade digital asset securities via OTC Link ATS over time, as digital assets become more regulated and are able to be traded by Financial Industry Regulatory Authority—(FINRA-) and SEC-registered broker-dealers.

In November 2022, OTC Markets Group completed the acquisition of EDGAR® Online, a supplier of real-time SEC regulatory data and financial analytics, from Donnelley Financial for \$3.5 million in cash, subject to adjustments.

In May 2022, the company acquired the assets of Blue Sky Data for approximately \$12 million in cash. The company's Blue Sky data offering includes compliance data on state "Blue Sky" securities rules and regulations covering a wide spectrum of equity and debt securities.

EARNINGS & GROWTH ANALYSIS

We forecast that OTC Markets will post gross revenues of \$111 million for 2024 and \$117 million for 2025, which would represent growth of 1% and 5%, respectively.

Over the coming years, we expect OTC Link revenues to stabilize near current levels around 20% of gross revenues, supported by new product launches including overnight trading capabilities, with Market Data Licensing and Corporate Services each accounting for approximately 40%.

We see growth among professional Market Data Licensing subscribers offsetting declines among nonprofessionals, reflecting more-limited retail participation in more-challenging market conditions, and see recent acquisitions supporting the unit's growth profile. For Corporate Services, we anticipate fewer companies falling out of compliance with OTCQX®/OTCQB® market requirements, as interest rates stabilize and begin to normalize, thus improving the financing environment for many public companies. In addition, we see recent investments made to align the sales team within key regions to better support company relationships.

For 2024 and 2025, we forecast operating profit margins of 30.4% and 32.5%, respectively, which excludes the impact of redistribution fees and rebates. We see OTCM effectively managing its corporate headcount and cost structure. We note that compensation and benefits are the largest operating expense line items, and recent quarters have included IT infrastructure, information services, and regulatory settlement accrual expenses. As such, we expect operating margins to trend back toward 2022 levels around 36% over the next few years.

We project EPS of \$2.31 and \$2.60 for 2024 and 2025, respectively. With around 12 million shares outstanding, we see considerable inherent long-term EPS leverage for OTC Markets Group.

FINANCIAL STRENGTH & DIVIDENDS

Our financial strength rating for OTC Markets Group is High. As of September 30, 2024, the company had \$37.9 million in cash, equivalents, and short-term investments, compared with \$37.7 million at the end of 2023.

As of September 30, 2024, the company's working capital surplus was \$17.6 million (current ratio of over 1.5), reflecting \$49.4 million in current assets and \$31.9 million in current liabilities. This compares favorably with working capital of \$3.0 million and a current ratio of approximately 1.1 at the end of 2023. OTC Markets Group had shareholders' equity of \$47.3 million at September 30, 2024, up from \$32.2 million at the end of 2023.

In our view, the company's solid financial footing is supported by its established history of positive operating cash flow and its commitment to returning capital to its shareholders. In 2023, the company used \$29.9 million in cash for dividends and share repurchases (\$26.48 million/\$3.38 million), compared with \$29.1 million in 2022 (\$26.36 million/\$2.78 million). In addition to an annual dividend that has been increased to \$0.72 (\$0.18 quarterly), OTCM's board has authorized and paid a special dividend of \$1.50 per share annually since 2021, with the most recent declared in November 2024, to be paid in December 2024.

At current levels, the regular dividend represents an annualized yield of 1.3%. Including the special dividend, that figure is approximately 4.1%.

In the first nine months of 2024, OTC Markets Group used \$9.4 million in cash to repurchase 51,141 shares (\$2.9 million) and pay three quarterly dividends of \$0.18 per share (\$6.5 million). In March 2024, the board refreshed the company's stock-repurchase program at up to 300,000 shares, which has been done on multiple occasions in recent years.

For the year ended December 31, 2023, net cash generated by operating activities was \$33.0 million, compared with \$33.7 million in the prior year. Net cash used in investing activities was \$5.2 million in 2023 (inclusive of net \$3.6 million purchases of short-term investments), down from \$16.4 million in 2022, which was attributable to the Blue Sky Data and EDGAR® Online acquisitions and IT infrastructure investments. Net cash used in financing activities in 2023 totaled \$31.1 million, compared with \$30.3 million in 2022, driven by dividends and share repurchases in both periods.

During the first nine months of 2024, net cash provided by operating activities was \$11.3 million, compared to \$12.2 million during the same prior year period. Net cash used in investing activities was \$2.1 million, as compared to \$3.5 million. Net cash used in financing activities were \$9.9 million, compared with \$10.8 million, respectively.

Although acquisitions are not a primary strategic goal, OTC Markets has been opportunistic in acquiring companies to bolster its operating framework. Prior to its 2022 acquisitions of Blue Sky Data and EDGAR® Online, the company had acquired Qaravan, a provider of bank-related compliance data and bolstered its Corporate Services unit through the acquisition of "Virtual Investor Conferences" that had previously been owned by PR Newswire, both in 2019.

MANAGEMENT

R. Cromwell Coulson serves as the chief executive officer and president and is a director of OTC Markets Group Inc. Mr. Coulson initially led a group of investors acquiring OTC Markets Group's predecessor business, the National Quotation Bureau (NQB) in 1997, and led its transformation into a technology-driven open, transparent, and connected marketplace platform. Previously, he had served as an institutional trader and portfolio manager specializing in distressed and value-oriented investments at OTC market maker Carr Securities Cor. Mr. Coulson also served as chairman of FINRA's Market Regulation Committee that advises on rulemaking and trading issues. Mr. Coulson holds approximately 27% of the company's voting power.

Antonia Georgieva has served as chief financial officer at OTC Markets Group Inc. since 2021. She has M&A and capital markets experience in both fintech and financial services. Most recently, Ms. Georgieva served as a partner at Drake Star Partners covering the fintech industry and previously served as a managing director at BMO Capital Markets' Technology and Business Services and Financial Institutions Groups. She holds a bachelor's degree in finance from the University of National and World

Economy in Bulgaria and an MBA from the Wharton School at the University of Pennsylvania.

Daniel Zinn has served as general counsel and corporate secretary of OTC Markets Group Inc. since 2010 and is its chief of staff. He leads the company's regulatory and policymaking efforts. Mr. Zinn had previously served as outside counsel to OTC Markets Group as a partner at The Nelson Law Firm LLC and worked in the corporate office of American International Group Inc. He is a member of the New York State and American Bar Associations. Mr. Zinn received his JD from the Benjamin N. Cardozo School of Law and his Bachelor of Science degree from Pennsylvania State University.

OTC Markets' board of directors consists of six members, including five independent directors. We also view favorably the company's recent disclosure that its management had compensation levels lowered to reflect the challenging market conditions in 2023, both of which we view positively from a corporate governance perspective.

RISKS

OTC Markets operates in a highly competitive industry, as many companies opt to list their equities on national exchanges, such as the New York Stock Exchange (which also operates the NYSE American exchange, which typically lists smaller companies) and Nasdaq. As such, the number of companies participating in either the OTCQX® or OTCQB® markets tends to be variable over time. We note that 2021 was a record year for IPOs on various national exchanges, but this pace slowed significantly in 2022 and 2023. We think this could promote more companies to seek or maintain inclusion in OTC Markets' OTCQX®/OTCQB® markets, though these markets are subject to their member companies maintaining compliance with their rules and standards. Its OTC Link ECN offering faces competition for execution of transactions in OTC securities from companies including Global OTC, which operates as a subsidiary of the New York Stock Exchange.

Although much of OTC Markets' revenue base is fixed and subscription-based, economic conditions such as higher inflation and rising interest rates or geopolitical instability can contribute to declines in financial markets and lower trading volumes in equity markets, which can result in greater revenue variability for OTC Markets.

OTC Markets Group currently has approximately 12 million shares outstanding. While a low share count provides significant leverage for EPS growth, modest expenses can have a significant impact on reported results, resulting in less favorable comparisons across periods.

We also note that OTC Markets Group does not file its financial statements with the SEC but rather through its own platform. Lastly, OTC Markets' stock is thinly traded and more illiquid compared with many peer exchange companies, which can increase its volatility. The stock is approximately 9% owned by institutions. In contrast, the float of Intercontinental Exchange Inc. (ICE), which owns the New York Stock Exchange, and Nasdaq Inc. (NDAQ) are 93% and 100% held by institutional investors, respectively.

VALUATION

With a recent stock price above \$53 per share and a market capitalization around \$635 million, OTC Markets is trading below 21-times our 2025 earnings estimate of \$2.60 and below that of a basket of global financial and exchange data companies that are trading at a forward multiple above 30-times. We note that the average forward multiple for ICE, NDAQ and the London Stock Exchange (LSEG) is currently 25-times.

Near-term revenues and EPS growth are likely to remain modest as the global equity markets experience less retail participation and OTCQX®/OTCQB® member companies navigate a challenging financing environment. That has dampened new member growth/compliance with market rules, and we expect OTCM to trade at a discount to the peer group average. We remain

encouraged by the introduction of new products and services, both organically and through acquisition, that can support incremental revenue growth across the organization's three operating units.

We continue to view positively the company's robust free cash flow and its growth record, strong balance sheet, and high proportion of subscription-based revenues that should limit revenue declines and support a recovery as macro-conditions improve.

In moving our base year to 2025, we apply a multiple of 25-times to our 2025 EPS estimate of \$2.60, a narrower discount to the broader peer average and inline with the above mentioned exchange peers, to arrive at a fair value estimate for OTCM shares of \$65 per share, which represents around 21% upside from current levels. The 4.1% implied dividend yield, including special dividends, adds to the total return potential.

Steve Silver,
Argus Research Analyst

INCOME STATEMENT

Growth Analysis (\$MIL)	2021	2022	2023	Q1 2024	Q2 2024	Q3 2024	Q4 2024E	2024E	Q1 2025E	Q2 2025E	Q3 2025E	Q4 2025E	2025E
Gross Revenue	102.9	105.1	109.9	27.7	27.6	27.4	28.4	111.1	28.7	29.0	29.4	29.9	117.0
Net Revenues	99.9	102.0	106.7					101.8					107.9
Operating Expenses	50.8	59.0	68.6					69.0					70.9
R&D	NA	NA	NA					NA					NA
Operating Income	38.0	37.2	32.6					32.8					37.0
Interest Expense	0.0	0.0	0.0					0.0					0.0
Pretax Income	38.0	37.4	33.5					33.7					37.8
Tax Rate (%)	20	17	18					18					18
Net income	30.5	31.3	27.7					27.8					31.0
Diluted Shares	11.8	11.9	11.9					11.9					11.9
EPS	2.52	2.53	2.28	0.49	0.56	0.61	0.65	2.31	0.56	0.65	0.69	0.70	2.60
Dividend	0.66	0.72	0.72					0.72					NA
Growth Rates (%)													
Revenue	45	2	5					1					5
Operating Income	177	NM	NM					NM					6
Net Income	167	3	NM					0					12
EPS	165	0	NM					1					13
Valuation Analysis													
Price (\$): High	61.00	66.94	64.99					NA					NA
Price (\$): Low	32.75	52.30	49.50					NA					NA
PE: High	39.9	26.6	25.7					NA					NA
PE: Low	21.4	20.8	19.6					NA					NA
PS: High	10.1	7.7	7.4					NA					NA
PS: Low	5.4	6.0	5.6					NA					NA
Yield: High	2.0	1.4	1.5					NA					NA
Yield: Low	1.1	1.1	1.1					NA					NA
Financial & Risk Analysis (\$MIL)													
Cash/Equivalents	50.4	37.4	37.7					NA					NA
Working Capital	18.2	2.5	3.0					NA					NA
Current Ratio	1.4	1.1	1.1					NA					NA
LTDebt/Equity (%)	NA	NA	NA					NA					NA
Total Debt/Equity (%)	NA	NA	NA					NA					NA
Ratio Analysis													
Net Revenue Margin	97%	97%	97%					92%					92%
Operating Margin	38.0%	36.1%	30.6%					32.2%					34.3%
Net Margin	30%	30%	25%					25%					26%
Return on Assets (%)	32.3	26.8	22.7					NA					NA
Return on Equity (%)	137.0	112.5	89.2					NA					NA
Op Inc/Int Exp	NA	NA	NA					NA					NA
Div Payout	26%	28%	31%					NA					NA

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