

May 15, 2025

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. It has three business lines: OTC Link, which operates Securities and Exchange Commission-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 subscribers; and Corporate Services, which operates the OTCQX®/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.
- * **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.
- * **Strong Subscription-Based Renewal Rates:** Importantly, much of the company's revenue is derived from subscriptions, which has accounted for more than 80% of gross revenues in recent years; however, the revenue mix can fluctuate based on transaction volumes conducted over OTC Markets Group's trading platforms. Historically, among eligible companies, renewals for the OTCQX and OTCQB markets have seen retention rates above 90%, which we think mitigates some

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KEY STATISTICS

Key Stock Statistics

Recent price (5/14/25)	\$48.48
Fair Value Estimate	\$60.00
52 week high/low	\$55.24 / \$44.20
Shares outstanding (M)	12.0
Market cap (M)	\$581.8
Dividend	\$0.72
Yield	1.5%

Sector Overview

Sector	Financial
Sector % of S&P 500	14.5%

Financials (\$M, as of 3/31/25)

Cash/Equivalents/ST Inv	32.9
Debt	NA
Working Capital (\$M)	8.7
Current Ratio	1.2
Total Debt/Equity (%)	NA
Payout Ratio (%)	32%
Gross Revenue (M) TTM	113.8
Net Income (M) TTM	27.1
Net Margin TTM	23.8%

Risk

Beta	0.41
Inst. ownership	9%

Valuation

P/E forward EPS	19.5
Price/Sales (TTM)	5.1
Price/Book	21.3

Top Holders

T. Rowe Price Group, Inc.
ODIN Forvaltning AS
Horizon Kinetics Asset Management

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.

of the cyclical volatility across various financial market conditions and provides a floor for its operational results during challenging market conditions.

- * **New Products to Support Platform Growth:** We are encouraged by OTCM’s technology capabilities, which have enabled new products and services. The company is introducing new services into its OTC Link unit, including overnight trading capabilities for exchange-traded and global OTC securities as well as providing closing auction functionality to its subscribers. In July 2025, OTCM will launch a new classification, OTCID™ for current Pink® companies that meet minimal standards for current information and management certifications but may not qualify for OTCQX or OTCQB.
- * **Fair Value:** OTCM shares currently trade at a discount to the peer group of financial equity exchange operators and data providers, which we attribute to a more modest revenue growth profile over the past few years, amid challenging market activity. However, we see the company’s strong balance sheet and inherent EPS leverage as long-term value drivers. Based on our forward P/E analysis, we see a fair value of \$60 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 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 robust suite of predominantly subscription-driven, complementary 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 2024, these groups accounted for 20%, 39%, and 41% of gross revenues, respectively. In 2024, OTC Link’s contribution as a percentage of gross revenues increased by 2%, offsetting a similar decline in Corporate Services revenues, while Market Data Licensing’s percentage contribution was unchanged. We see the diversification of OTC Markets Group’s units supporting its total revenue profile under various market conditions.

For example, in 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, 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 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 March 31, 2025, there were 81 broker-dealer subscribers on OTC Link ATS, compared with 82 at the same point in 2024, while OTC Link ECN had 116, up from 112 at the same point in 2024. In aggregate, OTC Link had 141 unique subscribers as of March 31, 2025, compared with 135 a year earlier. The total number of securities quoted by broker-dealers on OTC Link ATS was 12,423 as of March 31, 2025, compared to 12,432 securities at the same point in 2024.

Transaction revenues drive a higher percentage of OTC Link revenues than the stable license base. However, the revenue mix can fluctuate based on transaction volumes conducted over OTC Markets Group’s trading platforms. OTC Link has contributed around 20% of gross revenue since 2021, which saw higher trading volumes and average daily transactions executed through OTC Link ECN (48,000 transactions per day), which moderated in the 30,000-38,000 daily transactions range since 2022, amid lower retail participation in the market. In 2024, average daily transactions moved to the high end of this range, at 38,000, and has further accelerated thus far in 2025, with 56,000 transactions in 1Q, driving 22% growth in OTC Link revenues year over year. Total dollar volume traded in OTCQX/OTCQB/Pink securities increased by 27% in 2024, after two years of declines, and rose 57% in 1Q25.

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PEER COMPARISON

Company	Ticker	Recent Price (\$)	52-Week High (\$)	52-Week Low (\$)	Mkt. Cap (\$ML)	1-yr Price Change (%)	1-yr Rev Growth (%)	1 YR EPS Growth (%)	P/E Ratio	Beta	Yield
OTC MARKETS GROUP INC	OTCQX: OTCM	48.48	55.24	44.20	582	-7	1	NM	21.5	0.41	1.5%
INTERCONTINENTAL EXCHANGE INC	NYSE: ICE	171.93	179.44	131.79	98624	28	16	8	28.3	1.13	1.1%
NASDAQ INC	NASDAQ: NDAQ	81.06	84.15	58.28	46538	34	22	0	28.7	1.01	1.3%
LONDON STOCK EXCHANGE GROUP PLC	LSE: LSEG	113.50*	121.85*	89.74*	60101*	25	6	12	30.2	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 2024, Market Data Licensing accounted for 39% of gross revenues, consistent with 2023 and up from 35% in 2022. The unit was bolstered by the 2022 acquisitions of Blue Sky Data and EDGAR Online, which drove increases in revenue contribution and subscription pricing.

The company's third operating unit, Corporate Services, accounted for 41% of gross revenues in 2024, down from 43% and 45% in 2023 and 2022, respectively. 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, OTCM 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 2025, effective annual fees were \$26,100 for OTCQX and \$16,020 for OTCQB), compared with a listing on a registered national securities exchange such as Nasdaq, which can cost more than \$100,000.

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 (separated into Current/Limited Information categories) 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, OTCM plans to launch a new classification, OTCID for current Pink companies that meet minimal standards for current information and management certifications but may 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, which allows broker-dealers to trade securities that have limited to no ongoing relationship with OTCM.

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.

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 macroeconomic volatility. In 2024, subscriptions accounted for 83% of gross revenues, compared with 85% in 2023 and 82% in 2022. In 1Q25, subscriptions accounted for 81% of gross revenues, and transaction-based revenues were 19% due to a higher level of average daily transactions over the OTC Link platform.

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.

We are encouraged by OTCM's technology capabilities, which have enabled new products and services. Although OTC Link's total addressable market growth in terms of number of subscribers is limited, as the platform is already utilized by the market's most-active broker-dealers, 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 allows 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 depository receipts 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 its most 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, OTCM's growth strategy is 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.

Over the past few years, the number of professional user subscribers has declined from a peak over 29,000 in 2023 to 27,711 in 1Q25. However, OTCM has retained much of the unit's revenues through price increases. Revenues declined 1% from professional users in 2024 but rose 20% in 1Q25, from price increases taken at the start of 2025. Conversely the number of nonprofessional users increased 12% by the end of 2024, compared with the prior year-end due to a new redistributor relationship in 3Q, but a lower average number of these users contributed to a 10% revenue decline in 2024, with price increases resulting in a 45% rise in 1Q25.

As of March 31, 2025, OTC Markets Group had 56 subscriptions to its Compliance Data or Compliance Analytics products and 27 subscriptions to its Blue Sky data product, which have stayed largely consistent in recent years. At the end of 2024, it had 67 market data redistributors disseminating its market data to subscribers, compared to 64 at year-end 2023.

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. 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 May 2025, 40 states and Puerto Rico have recognized its OTCQX market, with 38 states recognizing the OTCQB market.

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 longtime EDGAR Online customer, which we think provides actionable insights on how the data and analytic 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 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 subscriber cancellations since the acquisition and had 461 subscribers as of March 31, 2025, compared with approximately 500 at the same point in 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% for OTCQB companies). We are encouraged by the January 2025 retention rate of 96%. 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/OTCQB designation.

However, since 2022 and amid broader economic challenges (including rising interest rates, which impacted borrowing and funding, and global geopolitical concerns), member noncompliance and nonrenewals have reversed new net client addition trends. 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.

As of March 31, 2025, the number of OTCQX clients was 548, down from 577 clients at the same point in 2024 and 600 at the end of 2023. Despite the contraction, retention rates among eligible companies remained strong in 1Q25, at 96%, compared with 93% for the same period in 2024. Similarly, the 1,051 OTCQB companies at March 31, 2025, was flat compared to the end of 2024 but below 1,115 at the same point in 2024. OTCQB companies have declined since peaking in 2022 but remain well above 2020 year-end levels near 900. Renewal rates for OTCQB in 1Q25 were around 90% but have historically been over 90%.

Another key driver has been the expansion of the international client base, which generates over 80% of the overall dollar volume. Of the OTCQX clients, roughly one-third were U.S. companies, and the rest were international. Of the OTCQB clients, more than 70% were international. Among the new issuers added to these markets in 2024, 57% and 64% were international, respectively.

Along with fewer new companies joining OTCQX/OTCQB and fewer IPOs in general, there have been fewer companies graduating to national securities exchanges (43 in 2024, up from 38 in 2023, but well below 74 and 155 in 2022 and 2021, respectively).

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 2.0 Act —

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 ESOP benefits.

RECENT DEVELOPMENTS

OTC Markets Group shares trade under ticker symbol OTCM and have OTCQX designation. In 2024, the shares declined by 5%, compared with a 23% increase for the S&P 500. To date in 2025, the shares declined by 5%, compared with an unchanged S&P 500.

In May 2025, OTCM reported 1Q25 results, which saw 10% gross revenue growth to \$30.4 million and diluted EPS of \$0.50. OTC Link revenues increased by 22%, driven by higher daily transactions and share volumes traded, accounting for almost 22% of gross revenues. Market Data Licensing revenues (42% of the total) increased by 15%. Corporate Services revenues (36% of total revenues) declined by 1%.

In November 2024, OTC Markets Group launched MOON ATS, which offers access to NMS securities listed on major exchanges during the overnight session. As a result, OTC Markets Group is the first ATS operator 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 will formally introduce a new market, OTCID, that will replace the legacy Pink Current market. OTCID 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 U.S. 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.

EARNINGS & GROWTH ANALYSIS

We forecast that OTC Markets will post gross revenues of \$120.1 million for 2025 and \$123.5 million for 2026, which would represent growth of 8% and 3%, respectively.

We see near-term revenue growth supported by increases in OTC Link transaction-based revenues, as market volatility should drive enhanced retail participation in global equity markets, as well as by new product launches. For 2025 and 2026, we expect transaction-based expenses offsetting more than 7% of gross revenues, up from 6% in 2024 and 5% in 2023.

We see OTCM managing its Market Data Licensing subscriber base and continuing to invest in its technology to support future growth while raising its price over time to reflect the enhanced value of the product suite. For Corporate Services, we anticipate OTCQX/OTCQB client add trends to begin to stabilize, as interest

rates gradually decline, thus improving the financing environment for many public companies. We also see recent investments made to align the sales team regionally supporting enhanced company relationships.

For 2025, we forecast operating profit margins around 30.6%, up from 29.9% in 2024 and, project 32.5% in 2026. We see OTCM effectively managing its corporate head count and cost structure. We note that compensation and benefits are the largest operating expense line items, and in the last two years, operating expenses have included some nonrecurring items, including for IT infrastructure, regulatory settlement accrual expenses, and professional fees. As such, we expect operating margins to start to trend back toward 2022 levels around 36% over the next few years.

We project EPS of \$2.49 and \$2.71 for 2025 and 2026, respectively. With around 12 million shares outstanding and a share repurchase program in place, we see inherent long-term EPS leverage for OTCM, as revenues return to a growth trajectory. That said, we note that its small changes in operating expenses can also have large impacts on margins and EPS.

FINANCIAL STRENGTH & DIVIDENDS

Our financial strength rating for OTC Markets Group is High. As of March 31, 2025, the company had \$32.9 million in cash, equivalents, and short-term investments, compared with \$39.0 million at the end of 2024.

As of March 31, 2025, working capital surplus was \$8.7 million (current ratio of 1.2), reflecting \$45.4 million in current assets and \$36.7 million in current liabilities. OTC Markets Group had shareholders' equity of \$38.4 million as of March 31, 2025.

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. This also contributed to a transient increase in operating expenses due to higher professional fees.

In our view, the company's solid financial footing is supported by its established history of positive operating cash flow and returning capital to its shareholders. Since the beginning of 2021, the company has returned more than \$100 million to its investors, including special dividends of \$1.50 per share in each of the past four years.

In 2024, OTCM used \$29.5 million in cash for dividends and share repurchases (\$26.6 million/\$2.9 million), compared with \$29.9 million in 2023 (\$26.5 million/\$3.4 million). In addition to an annual dividend that has been increased to \$0.72 (\$0.18 quarterly), OTCM has paid a special dividend of \$1.50 per share annually since 2021, with the most recent paid in December 2024. At current levels, the regular dividend represents an annualized yield of about 1.5%. Including the special dividend, that figure is approximately 4.6%.

For the year ended December 31, 2024, net cash generated by operating activities was \$32.9 million, compared with \$33.0 million in the prior year. Net cash used in investing activities was \$2.2 million in 2024, down from \$5.2 million in 2023. Net cash used in financing activities in 2024 totaled \$30.2 million, compared with \$31.1 million in 2023, driven by dividends and share repurchases in both periods.

In March 2025, the board refreshed the company's stock repurchase program at up to 300,000 shares, which it has done annually in recent years. In 1Q25, OTCM repurchased 55,522 shares at a total cost of \$2.9 million.

MANAGEMENT

R. Cromwell Coulson serves as the chief executive officer and president and is a director of OTC Markets Group. Mr. Coulson initially led a group of investors acquiring OTC Markets Group's predecessor business, the National Quotation Bureau, 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 Corp. Mr. Coulson served as chairman of FINRA's Market Regulation Committee that advises on rulemaking and trading issues. Mr. Coulson holds around 27% of OTCM's voting power.

Antonia Georgieva has served as chief financial officer at OTC Markets Group 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.

Dan Zinn has served as general counsel and corporate secretary of OTC Markets Group 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 view favorably the company's revision of its compensation levels to reflect challenging market conditions when they have arisen, most recently in 2023. As such, we hold a positive view of the company's corporate governance.

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. We also see the number of companies participating in either the OTCQX or OTCQB markets remaining variable due to trends related to IPOs, graduation to national exchanges, and companies remaining compliant with ongoing rules and standards. OTCM's 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 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 10% owned by institutions. In contrast, the float of Intercontinental Exchange Inc. (ICE), which owns the New York Stock Exchange, and Nasdaq Inc. (NDAQ) are both 93% held by institutional investors.

VALUATION

With a recent stock price around \$49 per share and a market capitalization around \$580 million, OTC Markets is trading below 20-times our 2025 earnings estimate of \$2.48 and below the level 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 London Stock Exchange Group plc (LSEG) using 2025 consensus adjusted EPS estimates is currently above 25.5-times.

While we continue to see OTCQX/OTCQB member companies navigating a challenging financing environment, we are encouraged by recently disclosed firming trends in OTCQX/OTCQB membership, as well as an increase in average daily transactions over OTCM's platform amid market volatility, which we expect to continue compared to the past few years. We also 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.

In addition, we 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 provide a solid floor to its operations and limit revenue volatility. That said, we expect OTCM to continue to trade at a discount to its peer average given the near-term revenue growth profile.

Thus, we apply a multiple of 24-times to our 2025 EPS estimate of \$2.49, a discount to the broad peer average and to the above-cited exchange peers, given the more modest recent revenue growth trajectory. However, we are encouraged by OTCM's introduction of new value-added services to its product mix and its focus on reaccelerating growth. We arrive at a fair value estimate for OTCM shares of \$60 per share, representing more than 20% upside from current levels. The 4.6% 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	2024	Q1 2025	Q2 2025E	Q3 2025E	Q4 2025E	2025E	Q1 2026E	Q2 2026E	Q3 2026E	Q4 2026E	2026E
Gross Revenue	102.9	105.1	109.9	111.1	30.4	30.0	29.7	30.0	120.1	30.2	30.7	31.1	31.5	123.5
Net Revenues	99.9	102.0	106.7	107.9					116.1					119.5
Operating Expenses	50.8	59.0	68.6	69.0					71.3					72.0
R&D	NA	NA	NA	NA					NA					NA
Operating Income	38.0	37.2	32.6	32.2					35.6					38.8
Interest Expense	0.0	0.0	0.0	0.0					0.0					0.0
Pretax Income	38.0	37.4	33.5	33.1					36.3					39.6
Tax Rate (%)	20	17	18	18					18					18
Net income	30.5	31.3	27.7	27.4					29.8					32.5
Diluted Shares	11.8	11.9	11.9	12.0					12.0					12.0
EPS	2.52	2.53	2.28	2.26	0.50	0.65	0.66	0.68	2.49	0.56	0.69	0.72	0.74	2.71
Dividend	0.66	0.72	0.72	0.72					0.72					NA
Growth Rates (%)														
Revenue	45	2	5	1					8					3
Operating Income	177	NM	NM	NM					8					3
Net Income	167	3	NM	NM					9					9
EPS	165	0	NM	NM					10					9
Valuation Analysis														
Price (\$): High	61.00	66.94	64.99	60.2					NA					NA
Price (\$):Low	32.75	52.30	49.50	45.0					NA					NA
PE: High	39.9	26.6	25.7	26.4					NA					NA
PE: Low	21.4	20.8	19.6	19.7					NA					NA
PS: High	10.1	7.7	7.4	6.6					NA					NA
PS: Low	5.4	6.0	5.6	4.9					NA					NA
Yield: High	2.0	1.4	1.5	1.6					NA					NA
Yield: Low	1.1	1.1	1.1	1.2					NA					NA
Financial & Risk Analysis (\$MIL)														
Cash/Equivalents	50.4	37.4	37.7	39.0					NA					NA
Working Capital	18.2	2.5	3.0	5.9					NA					NA
Current Ratio	1.4	1.1	1.1	1.1					NA					NA
LTDebt/Equity (%)	NA	NA	NA	NA					NA					NA
Total Debt/Equity (%)	NA	NA	NA	NA					NA					NA
Ratio Analysis														
Net Revenue Margin	97%	97%	97%	97%					97%					97%
Operating Margin	38.0%	36.1%	30.6%	29.8%					30.7%					32.5%
Net Margin	30%	30%	25%	25%					25%					26%
Return on Assets (%)	32.3	26.8	22.7	22.2					NA					NA
Return on Equity (%)	137.0	112.5	89.2	80.5					NA					NA
Op Inc/Int Exp	NA	NA	NA	NA					NA					NA
Div Payout	26%	28%	32%	32%					NA					NA

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