

THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

OTCM - Q4 2018 OTC Markets Group Inc Earnings Call

EVENT DATE/TIME: MARCH 07, 2019 / 1:30PM GMT



CORPORATE PARTICIPANTS

Beatrice Ordonez *OTC Markets Group Inc. - CFO*

Daniel Zinn *OTC Markets Group Inc. - General Counsel & Corporate Secretary*

Robert Cromwell Coulson *OTC Markets Group Inc. - CEO, President & Director*

CONFERENCE CALL PARTICIPANTS

Andrew Mitchell *Edison Investment Research Limited - Associate Director*

Christopher Paul McGinnis *Sidoti & Company, LLC - Special Situations Equity Analyst*

PRESENTATION

Operator

Greetings, and welcome to OTC Markets Group Fourth Quarter and Year-end 2018 Earnings Release and Conference Call. (Operator Instructions) Please note, this conference is being recorded.

I will now turn the conference over to your host Dan Zinn, General Counsel. Thank you. You may begin.

Daniel Zinn - *OTC Markets Group Inc. - General Counsel & Corporate Secretary*

Thank you, operator. Good morning, and welcome to the OTC Markets Group Year-end 2018 Earnings Conference Call. With me today are Cromwell Coulson, our President and Chief Executive Officer; and Bea Ordonez, our Chief Financial Officer.

Today's call will be accompanied by a slide presentation. Our earnings press release and the presentation are each available on our website. Certain statements during this call and in our presentation, may relate to future events or expectations and as such may constitute forward-looking statements. Actual results may differ materially from these forward-looking statements. Information concerning risks and uncertainties that may impact our actual results is contained in the Risk Factors section of our 2018 Annual Report, which is also available on our website. For more information, please refer to the Safe Harbor statement on Slide 3 of the earnings presentation.

With that, I'd like to turn the call over to Cromwell Coulson.

Robert Cromwell Coulson - *OTC Markets Group Inc. - CEO, President & Director*

Thank you, Dan. Good morning, and thank you, everyone, for joining the call. I am looking forward to this morning's discussion of the initiatives we worked towards and milestones we achieved during 2018, and our key areas of focus for 2019 and beyond.

Our mission is to create better-informed and more efficient financial markets. We fulfill that mission by executing our strategy, which is operating world-leading securities markets.

We share information widely through open networks that foster greater transparency. We connect broker-dealers, organize markets and inform investors. We deliver elegant, reliable and cost-effective subscription-based solutions for a future that is online, data-driven and social.

Our mission, strategy and company values provide us with a roadmap that allows us to focus on initiatives that will improve our technology platform and data-driven products, provide value to our clients, create growth opportunities for our colleagues and continue to deliver long-term value for our company's shareholders.



We achieved another record revenue year in 2018 with top line revenue growing 8% year-over-year. Operating income also reached an all-time high, growing 7% for the year. All 3 of our business lines contributed to our growth, which speaks to the combined effort of our entire organization. Bea will cover our results in greater detail in a few moments.

Since our last call, our acquisition strategy has begun to come to fruition. We began operating the Virtual Investor Conferences, or VIC business, following the acquisition of related assets from PR Newswire. The VIC platform allows investors to interact with company executives on several levels through live webcast presentations. The VIC business enhances our ability to provide companies with online tools to expand and dynamically communicate with their investor base in a manner that is time-efficient for management.

In February, we announced the acquisition of Qaravan Inc., a provider of risk and performance analytics tools tailored for the banking industry. Qaravan brings banking data on over 5000 banks, including the large contingent of community banks that trade on our markets. We are big fans of the community banking sector, and through Qaravan and similar offerings we will continue to provide innovative, practical solutions that support cost-effective financial transparency, performance benchmarking and regulatory compliance for the public and private banking industry.

One of the benefits of being a public company is that your performance is transparent for all to see. Experienced managers know that well-lit scoreboards and peer benchmarking tools create stronger players and maximize long-term performance. Qaravan helps us provide those tools to the community banking sector, both those that are public today and ones that are preparing to go public tomorrow. Achieving regulatory recognition for our OTCQX and OTCQB markets and supporting small company capital formation were top priorities in 2018. We recently added Michigan to our Blue Sky map, bringing us to 34 states. This means OTCQX companies are now exempt from secondary trading rules in 2/3 of the 50 states, while OTCQB companies are exempt in 31. On a national scale, we continue to see support for NASAA's proposed model rule, which would help additional states streamline their respective Blue Sky requirements. Ongoing collaboration with regulators is a vital part of achieving our goal of national Blue Sky recognition, and our larger objectives of improving capital formation while supporting investor protection.

In 2018, 70 companies graduated from our markets to a national securities exchange listing, making us, by far, the most successful venture market in the world, again. We continue to see growth in the number of clients using our enhanced data products. These tools provide broker-dealers, investment managers and compliance professionals with the data they need to automate compliance and other processes, identify operational risk and better address marketwide challenges.

Throughout 2018, regulatory enforcement actions, including the number of microcap fraud cases, raised the risk profile of firms that clear and process, lower-priced securities. Some clearing firms have announced policies that limit their activities in this space, or restrict certain client's abilities to deposit shares or trade in the securities that are priced below \$5. We have been working with transfer agents, clearing firms, broker-dealers and, of course, regulators and other important parties, to frame the discussion and to develop database solutions that inform investors, allow firms to properly assess risk and respond accordingly, so compliant company shares can be easily whitelisted; red flags, assessed; and bad actors, red light.

Our Small Cap Listed Compliance product furthers the reach of our data products by providing information about exchange-listed companies. Based on our analysis of the data, these companies can be subject to significant stock promotion. There's demand from broker-dealer compliance teams to intelligently address risks of promotions and identify illegal securities distributions in listed securities.

On the trading services front, OTC Link ECN added new subscribers and enabled existing OTC Link ATS subscribers in 2018. We look forward to continuing to work with our broker-dealer community to optimize their experience across each of our regulated ATS platforms.

As the operator of 2 ATSs, one of which is subject to the SEC's Regulation SCI, we remain vigilant about the reliability of our systems. While we constantly work to enhance our services and capabilities, we also know that reliability remains the core of our offering. In 2018, we recorded our fourth consecutive year of 100% uptime of our core OTC Link ATS systems during regular market trading hours. This achievement is a testament to what our team can accomplish in the service of our mission. System reliability and regulatory compliance need to be a core focus every working day at OTC Markets Group.



Later this month, OTC Markets Group will open our new corporate headquarters in the heart of the financial district at 300 Vesey Street. While we are sad to leave a space that has served us well, 300 Vesey will provide us with the opportunity to further expand our capabilities with upgraded, state-of-the-art space. It will be a convenient and cost-effective headquarters that positions us well to serve the needs of our colleagues and client for the next decade.

Finally, I'm pleased to announce that on March 5, our Board of Directors declared a quarterly dividend of \$0.15 per share payable later this month. These dividends reflect our ongoing commitment to provide superior shareholder returns.

With that, I will turn the call over to Bea.

Beatrice Ordonez - *OTC Markets Group Inc. - CFO*

Thank you, Cromwell. As we close out our reporting for 2018, I want to take a moment to thank our fantastic finance and legal teams for all of their hard work over the last several weeks.

I will now spend a few minutes reviewing our results for the fourth quarter and year ended December 31, 2018. Any reference made to prior period comparatives refers to the fourth quarter 2017 or the year ended December 31, 2017, as appropriate.

I will start on Slide 7. For the fourth quarter, OTC Markets Group generated \$15.4 million in gross revenues, up 11%. Corporate Services revenues were \$6.5 million, up 11%. On our OTCQX markets, strong sales combined with reduced churn contributed to an 11% increase in revenue. On our OTCQB market, price increases effective in January 2018 was the primary driver of a 12% increase in related revenues.

Market Data Licensing revenues were \$5.9 million, up 9%. Price increases effective for 2018 and impacting certain end-of-day pricing and data file products coupled with increased usage and new sales drove a 24% increase in revenue.

We also saw an uptick in the number of professional and nonprofessional users of our market data, driving a 5% increase in user license revenues.

OTC Link generated revenues of \$2.9 million, up 15%, with revenues contributed by our ECN and an increase in trade message volumes to the primary drivers.

Turning our attention now to the full year results. For 2018, we generated gross revenues of \$59.3 million, up 8%. Corporate Services revenues were up 9%, with strong sales in our OTCQX market and price increases on our OTCQB market driving year-over-year increases of 11% and 12%, respectively.

During 2018, we added 119 companies to the OTCQX market, a 43% increase in sales over the prior year. We closed the year with 409 companies on the market, up from 366 companies as of the prior year-end. International companies have been a significant driver of this growth and made up 63% of the total number of companies on the OTCQX market at year-end.

In that context, in the fourth quarter, we completed the process of setting up a U.K. subsidiary, OTC Markets Group International Limited, and in January 2019, opened a small office in London to further support our international sales efforts.

For the OTCQX market, renewals are handled annually on a calendar year basis. In respect of the 2019 subscription period, our retention rate was 94%, a 3 percentage point increase over 2018.

We added 243 companies to the OTCQB market, down slightly versus the 249 new joins in the prior year, and ended the year with 934 companies on the market, again very slightly down from the 938 companies as at the prior year-end.

Our market data business delivered revenues of \$23.4 million, up 7%. As already discussed in the context of our quarterly results, a mixture of price increases and new sales of certain data license products, primarily our compliance data products, drove much of that increase, delivering a 26% increase in related revenues.

Year-over-year increases in the number of professional and nonprofessional users resulted in a 2% increase in user license revenues.

OTC Link generated revenues of \$11.2 million for the year, up 11%. Higher trading volumes helped drive a year-over-year increase in the volume of trade messages and an 11% increase in message revenues. Our OTC Link ECN has continued to win market share and contributed full year revenues of \$869,000. Since its launch in December 2017, our OTC Link ECN has added 11 new subscribers and enabled 30 legacy subscribers. We have seen a consistent increase in trading on the platform, with the average number of transactions executed for the fourth quarter up 14% over the third quarter and an eightfold increase in the number of trades when compared to the first quarter of 2018.

Moving now to Slide 8. On a quarter-over-quarter basis, operating expenses were up 15%. Compensation expenses were responsible for approximately half of that increase, increasing 12%. An increase in headcount, the impact of annual salary increases and an increase in the amount of 2018 incentive compensation were the primary drivers.

In October 2019 (sic) [2018] we entered into a sublease agreement for new space in downtown New York. We expect to occupy the space in March of 2019, but will have continued obligations in respect of our existing space through that date. In the fourth quarter, this resulted in a 62% increase in rental expense.

We saw a 6% decrease in our information technology and infrastructure costs, while an increased focus on international sales and other PR initiatives drove a 65% increase in marketing spend.

On a year-over-year basis, operating expenses were up 9%. Compensation costs make up 65% of our total expense base, an increase to 11%, for substantially the same reasons already discussed in the context of our quarterly results.

Our information technology cost declined by 6%, primarily related to the elimination or reduction of certain information services costs. This was partially offset by an increase in support costs for our ECN and increased spend related to system security.

Relating to our upcoming move to new corporate headquarters, we saw a 19% year-over-year increase in our occupancy cost. For the full year, professional fees increased 22%, largely related to fees incurred in connection with our corporate development activities. Marketing expense has also increased by 27%.

Turning now to Slide 9. For the fourth quarter, income from operations is up 3% while for the full year, we delivered growth of 7% over the prior year.

Net income for the quarter increased 41%, while for the full year, we saw an increase of 29%. Both from a quarterly and full year basis, the increase in net income resulted from growth in operating income combined with a significant decrease in the company's effective tax rate.

For the year ended December 31, 2018, the company's effective tax rate was 18%, down from 32% in the prior year. The decrease in our effective tax rate for 2018 is primarily due to the lower U.S. corporate income tax rate in effect following tax reform legislation enacted at the end of 2017. For 2018, our effective tax rate was further reduced by a higher research and development credit and the impact of the foreign-derived intangible income deduction.

In addition to certain GAAP and other measures, management utilizes a non-GAAP measure, adjusted EBITDA, which excludes noncash stock-based compensation. On a quarter-over-quarter basis, adjusted EBITDA increased by 4% to \$5.6 million, while for the full year, our adjusted EBITDA was \$23 million or \$1.93 per adjusted diluted share, up 6%.



Moving now to Slide 10. Cash flow from operating activities for the full year amounted to \$22.6 million, a 37% increase over the prior year. Free cash flows for the year were up 44% to \$22 million. During 2018, capital expenditures amounted to \$550,000, down versus the \$1.2 million spent in 2017.

In 2019, we expect to see a very significant increase in capital investment, with infrastructure in our primary and backup data centers reaching end of life and spends related to our move to new corporate headquarters driving that increase. We ended the year with \$29 million of cash on hand, a strong balance sheet and no debt, and benefit from a subscription-based recurring revenue model which produces consistent and predictable cash flows.

We continue to operate an investor-focused capital allocation policy which returns cash in the form of dividends and through our stock buyback program. During 2018, we returned a total of \$15.2 million comprised of dividends of \$14.2 million and share repurchases of \$1 million.

In closing, in 2018 we delivered revenue growth across all 3 of our business lines and expanded our suite of products both through organic initiatives and through acquisitions. As we look ahead, we plan to prudently invest to further enhance our product suite, add subscribers and grow revenues. We will continue to focus on organic initiatives as well as on evaluating strategic acquisition opportunities while always doing so in all the context of our commitment to delivering long-term value for our shareholders.

With that, I would like to thank everyone for their time and pass it back to the operator to open up the lines for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from Chris McGinnis with Sidoti & Company.

Christopher Paul McGinnis - Sidoti & Company, LLC - Special Situations Equity Analyst

I was wondering if you could provide any insight around the acquisitions and maybe add some financial metrics or maybe some growth rates around those businesses that you acquired?

Robert Cromwell Coulson - OTC Markets Group Inc. - CEO, President & Director

Thank you, Chris. The insights are, as we look to expand our strategy from a pure organic growth play to both organic and acquired growth, these are both 2 acquisitions that definitely target important client groups for us and are also well within our wheelhouse of the things we want to be better at. And so as I look at these 2, and Bea can go through a little bit with where the financial metrics and various pieces are, but these 2 acquisitions have given us -- are great learning opportunities and they're also places where, if we mess up, it's not going to be that huge. And that's, you know, building our muscles to do acquisitions, you don't want to learn with a giant (expletive) check of shareholders' money. So the VIC is really important because if you look at how -- for public companies, how do they provide dynamic online content and communication to investors? And those opportunities, the VIC is a good core starting point as we move into providing more audio, more video, more ways for a public company just to have conversations with their shareholders, but in a time-effective matter. So -- and you know, as an opportunity to buy an acquisition from a larger seller where it hadn't been a core business. The second one is a product of Qaravan, which was built out and needed a sales pipeline, needed support of someone bigger behind it, and so that was another fit. Both of these products, we're going to need to lean into marketing, and we're going to need to invest in marketing this year going forward to get the products' traction and that's going to build strong muscles for those business line managers. So -- but they're both -- neither one is giant acquisitions, but from our standpoint is, the learning opportunities and the benefits for



our clients, if we get it right, are very good, and the amount of resources -- of financial resources, to do these is not that high, and that I think is a good thing for our earlier acquisitions. But I'll hand it to Bea for the financial metrics.

Beatrice Ordenez - *OTC Markets Group Inc. - CFO*

Chris, just to reiterate what Cromwell is saying. Obviously, relatively small acquisitions, asset-light acquisitions that didn't come with a big infrastructure carry cost, relatively light in headcount but, importantly, additive in terms of product and technology and very much complementary to our existing product suite with strong overlap and synergistic opportunities in terms of our customer base. So for us, the key is to take those, as I say, relatively small asset-light acquisitions and successfully integrate them into our existing product suite and really monetize that technology, monetize that technology-enabled platform and do what we do best, cross sell into our subscriber base, sell successfully into that community bank space, in terms of the Qaravan acquisition, and more broadly into that issuer space in terms of the VIC. So the VIC business, the Virtual Investor Conference business, it was an established existing, albeit small revenue stream at Cision, relatively speaking. It just wasn't core, but to us, it's meaningful in that it fulfills a need that our issuers speak to regularly. And so we think we can monetize that and really integrate it successfully. Qaravan, again a technology-enabled platform that really speaks to our core mission around data, data integrity and data quality, and we expect that we'll be able to successfully sell that into our core constituency.

Christopher Paul McGinnis - *Sidoti & Company, LLC - Special Situations Equity Analyst*

I appreciate that. That's very helpful. I guess in similar relation to that, a second question, just around, maybe there's a way to think about new products offered within the last 12 to 18 months versus what you expect maybe going forward could, obviously, been helpful in your growth rate.

Robert Cromwell Coulson - *OTC Markets Group Inc. - CEO, President & Director*

I mean, we talk about our products when they are -- when they show up to the clients. And there's the -- ECN is a good example of how we launch a product, come out with core functionality, we talk to clients. We understand if it is either a data or an API-driven product that it takes time to get the connectivity, to have the clients use it. And I think our best products have always been 5-year release cycles, if it's something new that people have to do. So the ECN is there, the Qaravan, the other places. I mean, I take Qaravan in the data side. And I think you'll see other products. As we look how can we deliver for clients time-efficient, cost-effective products that help them in more effectively connect trades, run compliance processes and communicate and finally raise capital. So I think those are going to be some of the areas that we're looking at either internal organic products or are there some interesting outside products that we can purchase.

Christopher Paul McGinnis - *Sidoti & Company, LLC - Special Situations Equity Analyst*

Maybe just one last question. Can you maybe just comment on how the Reg A market's looking, maybe versus your expectations or how it's performed up-to-date and your thoughts of growth going forward?

Daniel Zinn - *OTC Markets Group Inc. - General Counsel & Corporate Secretary*

Sure, Chris. This is Dan. Thanks for that. So we're always excited to see the legislation move forward last year that expanded Reg A to SEC reporting companies and then the SEC completing its rule making towards the end of last year to allow that to happen. So it really is still in its infancy as an expansion of the rule. I think for Reg A generally, since inception, the entire community was kind of focused on greater results and more progress than we've seen to date. But things like attention from Congress and rule making by the SEC will give it a little bit of new light. So we are still focused on seeing that work. Our markets have been set up since the beginning in terms of the rule based for OTCQX and OTCQB and our discussions with issuers and advisers. And so we remain kind of bullish on the prospect there, and it's going to depend on the right kind of companies following the path and ultimately kind of leading the way for what could be a much bigger group behind them.

Robert Cromwell Coulson - *OTC Markets Group Inc. - CEO, President & Director*

And that's -- and Chris, this is Cromwell again. The part for us is, what can we do to seed some of the various players in this space to help the industry make the transition to online capital raising. And that's hard because companies go to the capital raise that worked before. Bankers are comfortable with it, and it takes time for new tools to be developed and that's -- so that is something that we're putting a lot of thought around now and -- but we don't -- for these type of structural changes, we don't expect them to change hugely rapidly but have the type of change that in 5 years, significant progress is made.

Operator

(Operator Instructions) Our next question is from Andrew Mitchell with Edison Investment Research.

Andrew Mitchell - *Edison Investment Research Limited - Associate Director*

Just several short questions, please. I was wondering if you can indicate what -- in rough terms, perhaps what the OTC Link ECN market share is currently you're looking to grow from -- the level you're looking to grow from? And then you mentioned that capital cost and infrastructure investment were going to be stepping up quite considerably in the current year. I was wondering if you could give some indication of the sort of level we might be thinking of there? And then on the regulatory front, I'm guessing that there's not really much you can add at the moment as to when NASAA will actually adopt the model rule. And perhaps you could talk about -- you mentioned in the annual, that the -- you're looking to gain Federal recognition as well. Wondering what steps are required to advance that? On acquisition, I think you've explained very well what sort of things you're looking at. I was just wondering whether, as you look at it now, there's really quite a large number that you would have to be considering. And then finally on the effective tax rate. I was wondering if around 20% would still be a reasonable assumption for the current year.

Beatrice Ordonez - *OTC Markets Group Inc. - CFO*

All right. I'll try and take the questions. I remember, there was a lot there. I'll take them slightly out of order. So let me address the effective tax rate first. So yes, look, we talked about our effective tax rate for 2018 and some of the drivers. If you look at obviously notes that's seen in our financials, you see a pretty handy side-by-side comparison of the 2018 effective tax rate versus 2017 with the big driver being tax legislation. As we look forward into 2019, I would expect our effective tax rate to be broadly in line. It's going to likely move down a smidge, and I'll talk about why in a moment and it's responsive to your other question around CapEx. So as I said in our remarks, we expect our CapEx for 2019 to be very significantly higher than it has been in 2018. I'll go through that in a moment. The impacts of that following the Tax Cuts and Jobs Act is that for certain companies operating certain businesses, and we are one of those, for certain investment in assets, when you put those assets into service, you get what's called a 100% bonus depreciation, which means for tax purposes you get the benefit of your investment in year 1 rather than spread over the life of the asset. So that, that CapEx spend that we will incur in 2019, we'll see a tax benefit from that. So in terms of that CapEx, look, like most companies, we see natural fluctuations in maintenance CapEx. We saw just under \$1 million in 2015, about \$400,000 in 2016, about \$1 million in 2017, a little over \$0.5 million in 2018. And obviously, look, we have to invest in equipment and infrastructure. And in 2019, we have a number of servers and other equipment in our primary and backup data centers that are nearing end of life, and we expect to incur approximately \$2 million to replace and upgrade that equipment in terms of expenditure. And then we talked about our move to 300 Vesey. So we've gotten a lot of value out of our existing space. We've been here a long time, and we're moving now to new space, and we're going to incur approximately, again, \$2 million in capital spend related to our move to those new corporate headquarters.

Andrew Mitchell - *Edison Investment Research Limited - Associate Director*

Taken on the point.



Robert Cromwell Coulson - *OTC Markets Group Inc. - CEO, President & Director*

So on the ECN market share more broadly, you've to look at our -- we -- this is Cromwell. We -- our market is segmented in various usefulness. There are some market share that we never want is because we've got OTC Link ATS, which facilitates market makers pricing and executing trades on their own platform and trading directly with their competitors when there's not -- if they only have half the liquidity. So you've to look at the market shares. We, unlike most other exchange operators, are very happy when Citadel, Virtu or any of our other market makers execute a trade on their own platform. They use our pricing. We've made them more successful. And we're also happy when they use our OTC Link to directly negotiate with a competitor. So the addressable market share, it is never going to be all the trades in the space. In fact, it will be less than half. So we comparably look at there's 2 parts. There's one is taking away volume from the other ECN in the space, of which we believe we offer significant advantages for firms that want to use a matching engine technology. And if you look at the types of securities in our market that trade well on a matching engine technology, it's the one to lots of orders. So it's a smaller number of securities that's very compressed. The second part is, there's certain trading strategies that our OTC Link subscribers can expand into because when you're a market maker, you want to put the majority of your volume out loud so you build your brand for high-quality executions and liquidity. But there's also some moments when as part of a strategy, you may want to trade anonymously. And so that capability comes in. So as our market share goes along, that's what we look at. We're primarily going through same, we want for firms that are not in the market making space who just want to be able to send things into an electronic market matching engine, we're competing for that share. That is not the majority of the market, but it's a competitive piece, and we're also offering new tools to enhance the business of our subscribers. So the second piece is on our infrastructure spend. Our offices we have today, I love for a lot of reasons. It's a great booming neighborhood. When we moved here, it was completely unpopular. And it's turned into Google wanting to build their headquarters for New York, their new headquarters, 3 blocks away. It's a very hot neighborhood and -- but we had -- we've had a competitive lease that we negotiated and our buildout that we built more than 10 years ago is fully depreciated. And so from a capital standpoint, which is one of our core values, there is nothing better than being on the tail end of a lease where you lasted longer than you thought you would. Now we're moving to a new space, and any time you move to new space, you have 2 parts to this. You've gotten an investment in the new space. Where we're moving, the majority was all built out with very good infrastructure. It's a great building. It's a better building for a financial fintech operator to be in, and we're taking advantage of investments that many others have put into this building. It's in Brookfield Place, which is a couple blocks from Goldman Sachs. So it's a better spot for us and -- but it is -- when you reprice even as we looked around and we're careful about where we went of fitting of the cost and for our clients and for our colleagues, it's still we're in the beginning of a lease and we're building a piece of space. We're always going to do that. We can't expect that when you change your headquarters, you're -- it's going to cost the exact same of a tail end fully depreciated lease. But it's going to position us also to be a better space going forward, and we're going to be able to do much more interesting things from being able to provide a better environment for people. So on that side is, we don't spend a lot of time trying to micromanage our cash flows to make them smooth. We're going to try and get as long as we can out of an investment, as long as it's still delivering. But if we have a server that we may have a 3-year life on but we need to upgrade it after 2 years because of the volume of transactions, we're going to spend that money too. And I think that's a really important side is to we're looking to build this business for the long term, and we're looking to build it so for the -- so shareholders over the next decade see more value. And I'll turn it over to Dan to talk about the regulatory pieces.

Daniel Zinn - *OTC Markets Group Inc. - General Counsel & Corporate Secretary*

Sure. Andrew, I'll try to address this relatively quickly. So with respect to the NASAA model rule, we follow that very closely. While there's never any guarantee of what's going to happen with any kind of regulatory adoption, we believe that it should be ready at some point in the second quarter to become a full model rule. Again, the states would then have the opportunity to adopt it on their own, but it'll be very nice to have the backing of NASAA in that more formal way. With respect to federal recognition that we referenced, that's really a reference to our larger regulatory agenda, but that's inclusive of things like employee stock ownership plans and the ability of OTC-traded companies to participate using their public market price, if they qualify. So it's -- in keeping with what we've been doing with NASAA, it's looking at the data-driven standards, looking at the markets that we've created and the quality of those markets and then modernizing some of the rules in Internal Revenue Code or in the Federal Reserve Regulations with respect to margin eligibility for non-exchange listed companies. So those are among the larger issues that we're pushing on a Federal level. And to Cromwell's point earlier, once you start to gain regulatory recognition even with the states, it makes other regulators more comfortable in talking to you and evaluating the changes that you made in the modernization of your market. So we're looking to leverage that always and particularly in 2019.



Andrew Mitchell - *Edison Investment Research Limited - Associate Director*

I think I've just one other question. So I mentioned left, which is just whether you have a large list of possible acquisitions or whether it's the small roster of things that you're considering at the moment?

Beatrice Ordonez - *OTC Markets Group Inc. - CFO*

Sure, Andrew, I'll take that. So look, I mean, in terms of acquisitions, we serve a broad range of constituents. We serve issuers. We serve broker-dealers and other financial institutions. We serve investors. So there are potentially a fairly broad range of companies that serve the needs of some slice of that overall subscriber base. So we spent a fair amount of time looking at companies across that sort of diverse kind of product and sector universe. Ultimately what we need to look at companies that fit our wheelhouse, those are going to be technology-enabled companies that serves the needs of one of those constituents, one of those subscriber bases. As I measured in relation to Qaravan and VIC, we're looking for technologies that are relatively asset-light, where we can integrate efficiently into our existing stack. Cultural fit is going to be key, but we need something that enhances. We're looking for companies that have a product suite that enhances our existing product suite and serves one of those constituents and ultimately, that can be accretive to earnings in a relatively short amount of time. So to the extent that there are companies in the universe that met those needs, it's a fairly broad list, and we are casting a fairly wide net. And as we look at them, we try and assess versus some of those factors that I just laid out.

Robert Cromwell Coulson - *OTC Markets Group Inc. - CEO, President & Director*

And so, Andrew, this is Cromwell. I'd also like to -- at a high level, as we look at our acquisitions, our -- the Big Blue exchanges have basically been pursuing a strategy that has been epitomized by what I call, the [valiant] strategy, which is, you buy businesses, you raise the prices super aggressively and you cut costs, which is a big people side and you don't invest in anything in the product going forward. And they've been able to do it and you've seen, (inaudible) the market data hearings, because regulators, they've had certain regulatory monopolies. Our viewpoint is, on our acquisition strategy, we don't want to be holding our valued clients hostage. We want to be delivering products that are time-efficient and cost-effective. We also want to be growing -- being able to buy products where we could invest in and we could improve the experience, and we can take their best people. So those -- so that side of it is how do we help our industry, and we don't need to become like -- we're not even looking at our overall margins. We're not looking to become the exchange type margin. We don't want to hold our clients regulatory hostage. And we think there's an advantage out there, and if you look out there at the big online brokers, market maker starting members exchange, they want -- the trading community is always going to be focused on a cost -- on a low-cost, high-quality, cheap and cheerful solution. And we want to be pricing into that. We also want to be building businesses around that where we derive greater value for others from those products and that platform. So with that, I will leave it open. We are going to look at a lot of businesses. And this is a long-term strategy, there's not one acquisition that's going to be transformative. It is going to be a road of building our business over the next 10 years.

Operator

Ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the call back over to management for closing remarks.

Robert Cromwell Coulson - *OTC Markets Group Inc. - CEO, President & Director*

Great. Thank you, everyone. I invite you to read through our 2018 Annual Report where you'll find insight into our performance and the trends and risks we expect could impact the company prospectively. Efficient public markets depend on individuals who do their own research, analyze fundamentals and make informed investment. You can do that by reading our annual report.

On behalf of the entire OTC Markets Group team, thank you for your continued support. We look forward to updating you as we continue to deliver upon our objectives and execute on our long-term strategy on behalf of the clients and shareholders we so proudly serve. Thank you.



Operator

This concludes today's conference. You may disconnect your lines at this time, and thank you for your participation.

DISCLAIMER

Thomson Reuters reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON REUTERS OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2019, Thomson Reuters. All Rights Reserved.