

Nasdaq

Raising EPS & PO following Adenza financials release last week

Reiterate Rating: UNDERPERFORM | PO: 57.00 USD | Price: 58.10 USD

Increasing 4Q23 EPS by 7% after Adenza disclosure

Adenza's 4Q23 results were stronger than we anticipated, and therefore, we are revising up our Nasdaq (NDAQ) earnings estimates to reflect the new information. Our 4Q23/2024/2025 earnings estimates rose to \$0.73/\$2.90/\$3.31 from \$0.68/\$2.81/\$3.21. Our price objective rises to \$57 from \$55.

Adenza's financials were released last week

NDAQ released Adenza's 2023 pro forma financials last week. Although the results showed a small full-year revenue miss (\$583M vs \$590M guidance for FY2023), we were positively surprised by (1) the expense trajectory and (2) the strong 4Q23 seasonality, which bodes well for NDAQ financial results next week since the transaction closed on November 1.

Upside from expenses and cost synergies

The full-year EBITDA margin of 59% beat management guidance by 73 bps, and adjusted depreciation is half of management guidance (2% of revenue). Additionally, NDAQ appears to have made quick work in capturing the expense synergies from the transaction given that Adenza operating expenses fell 14% sequentially in 4Q23.

Reiterate Underperform - Growth headwinds

Our Underperform rating reflects several risk factors for 2024-25 earnings, including a shrinking issuer base, the Members Exchange Options launch, muted listings, elongated sales cycles, slow Tier-1 bank penetration, and aggressive Adenza targets. We note that the IPO drought has inhibited NDAQ's strategic flywheel and hindered growth across several business units, such as listings, trading, and corporate services. We see the 7-10% organic revenue growth guidance as a high bar given the backdrop.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	2.52	2.66	2.83	2.90	3.31
EPS Change (YoY)	22.3%	5.6%	6.4%	2.5%	14.1%
Consensus EPS (Bloomberg)			2.79	2.79	3.11
DPS	0.70	0.78	0.86	0.91	0.98
Valuation (Dec)					
P/E	23.1x	21.8x	20.5x	20.0x	17.6x
Dividend Yield	1.2%	1.3%	1.5%	1.6%	1.7%

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Timestamp: 22 January 2024 04:05PM EST

22 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	55.00	57.00
2023E Rev (m)	5,923.0	5,912.4
2024E Rev (m)	6,032.7	6,021.1
2025E Rev (m)	6,220.5	6,235.1
2023E EPS	2.78	2.83
2024E EPS	2.81	2.90
2025E EPS	3.21	3.31

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Stock Data

Price	58.10 USD
Price Objective	57.00 USD
Date Established	22-Jan-2024
Investment Opinion	B-3-7
52-Week Range	46.88 USD -62.79 USD
Mrkt Val / Shares Out (mn)	33,522 USD / 577.0
Free Float	69.0%
Average Daily Value	144.93 USD
BofA Ticker / Exchange	NDAQ / NAS
Bloomberg / Reuters	NDAQ US / NDAQ.OQ
ROE (2023E)	22.3%
ESGMeter™	High

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iQprofileSM Nasdaq

Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$ Millions)					
Total Net Revenue	3,419	3,581	3,746	3,948	4,173
% change	17.8%	4.7%	4.6%	5.4%	5.7%
Compensation & Benefit	(938)	(1,002)	(1,037)	(1,052)	(1,086)
% change	19.3%	6.8%	3.4%	1.5%	3.2%
Non-Compensation Expenses	(678)	(716)	(760)	(795)	(835)
% change	7.8%	5.6%	6.1%	4.6%	5.1%
Total Expenses	(1,616)	(1,718)	(1,796)	(1,847)	(1,921)
% change	14.2%	6.3%	4.6%	2.8%	4.0%
Operating Income	1,803	1,863	1,949	2,101	2,251
% change	21.2%	3.3%	4.6%	7.8%	7.2%
Reported Net Income	1,273	1,324	1,439	1,670	1,879
% change	23.4%	4.1%	8.7%	16.0%	12.6%
Adjusted Net Income	1,273	1,323	1,439	1,670	1,878
% change	23.5%	3.9%	8.8%	16.0%	12.5%

Performance Metrics (Dec)

	2021A	2022A	2023E	2024E	2025E
Operating Margin	52.7%	52.0%	52.0%	53.2%	54.0%
Compensation Expense/Revenue	27.4%	28.0%	27.7%	26.7%	26.0%
Non-Compensation Expense/Revenue	19.8%	20.0%	20.3%	20.1%	20.0%
Dividend Payout Ratio	27.5%	29.0%	30.2%	31.3%	29.5%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Assets	20,115	20,868	24,862	25,321	25,850
Cash and Investments	393	502	94	518	1,008
Long-Term Debt	4,812	4,735	9,535	8,847	8,053
Total Shareholders' Equity	6,395	6,151	6,759	7,906	9,230

Company Sector

Other Financials

Company Description

Nasdaq, which was founded in 1971, is a leading diversified global exchange that offers trading and clearing services, market data products, technology products and services, financial index products, listing services and public company services. The company owns and operates 24 markets, 3 clearinghouses and 5 central securities depositories across the U.S. and Europe.

Investment Rationale

Our thesis reflects NDAQ's premium valuation as well as several risk factors for 2023, including volume headwinds, retail disengagement, and Market Tech growth deceleration.

Quarterly Earnings Estimates

	2022	2023
Q1	0.66A	0.69A
Q2	0.69A	0.71A
Q3	0.68A	0.71A
Q4	0.64A	0.73E

Price objective basis & risk

Nasdaq (NDAQ)

Our primary valuation metric for US Exchanges is price to long-term earnings (2026E). We focus on long-term EPS because we prefer to normalize for any near-term factors, and it also provides credit for an additional two years of growth. We apply a 15x multiple on our 2026E EPS to derive our \$57 PO on NDAQ. Our multiple reflects a slight discount on NDAQ's recent historical average given the recent earnings quality reduction and our expectation for decelerating growth.

Upside risks are (1) a bull market could revive listings activity and drive revenue gains in indexing from beta, (2) a prolonged Democratic administration could enable SEC Chair Gensler to complete his equity market structure reforms and move volumes back onto exchanges, (3) the secular trend toward derivatives (vs. cash) could offset the downward normalization in options trading, and (4) NDAQ's new crypto custody business could enhance growth.

Downside risks are (1) NDAQ's premium valuation, (2) MEMX's entrance into the options market, (3) retail investor disengagement, (4) decelerating Market Tech sales, (5) SEC Chair Gensler's inability to complete his market structure agenda during his administration, and (6) volume headwinds as we transition toward a bull market.

Analyst Certification

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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
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	Ameriprise Financial	AMP	AMP US	Craig Siegenthaler, CFA
	Ares Management Corp	ARES	ARES US	Craig Siegenthaler, CFA
	BlackRock, Inc.	BLK	BLK US	Craig Siegenthaler, CFA
	Blackstone	BX	BX US	Craig Siegenthaler, CFA
	Blue Owl Capital	OWL	OWL US	Craig Siegenthaler, CFA
	Cboe Global Markets	CBOE	CBOE US	Craig Siegenthaler, CFA
	Interactive Brokers	IBKR	IBKR US	Craig Siegenthaler, CFA
	Intercontinental Exchange	ICE	ICE US	Craig Siegenthaler, CFA
	KKR & Co. Inc.	KKR	KKR US	Craig Siegenthaler, CFA
	Raymond James Financial	RJF	RJF US	Mark McLaughlin, CFA
	TPG Inc	TPG	TPG US	Craig Siegenthaler, CFA
	Tradeweb Markets Inc.	TW	TW US	Craig Siegenthaler, CFA
	Victory Capital Holdings, Inc.	VCTR	VCTR US	Craig Siegenthaler, CFA
	Virtu Financial	VIRT	VIRT US	Craig Siegenthaler, CFA
NEUTRAL				
	Affiliated Managers Group	AMG	AMG US	Craig Siegenthaler, CFA
	Apollo Global Management	APO	APO US	Craig Siegenthaler, CFA
	Brookfield Asset Management	BAM	BAM US	Craig Siegenthaler, CFA
	CME Group Inc	CME	CME US	Craig Siegenthaler, CFA
	Invesco	IVZ	IVZ US	Craig Siegenthaler, CFA
	Janus Henderson Group	JHG	JHG US	Craig Siegenthaler, CFA
	LPL Financial Holdings	LPLA	LPLA US	Craig Siegenthaler, CFA
	Patria	PAX	PAX US	Craig Siegenthaler, CFA
UNDERPERFORM				
	Charles Schwab Corp.	SCHW	SCHW US	Craig Siegenthaler, CFA
	Franklin Resources	BEN	BEN US	Craig Siegenthaler, CFA



US - Brokers, Asset Managers, & Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Nasdaq	NDAQ	NDAQ US	Craig Siegenthaler, CFA
	Robinhood Markets	HOOD	HOOD US	Craig Siegenthaler, CFA
	T. Rowe Price	TROW	TROW US	Craig Siegenthaler, CFA
	The Carlyle Group	CG	CG US	Craig Siegenthaler, CFA

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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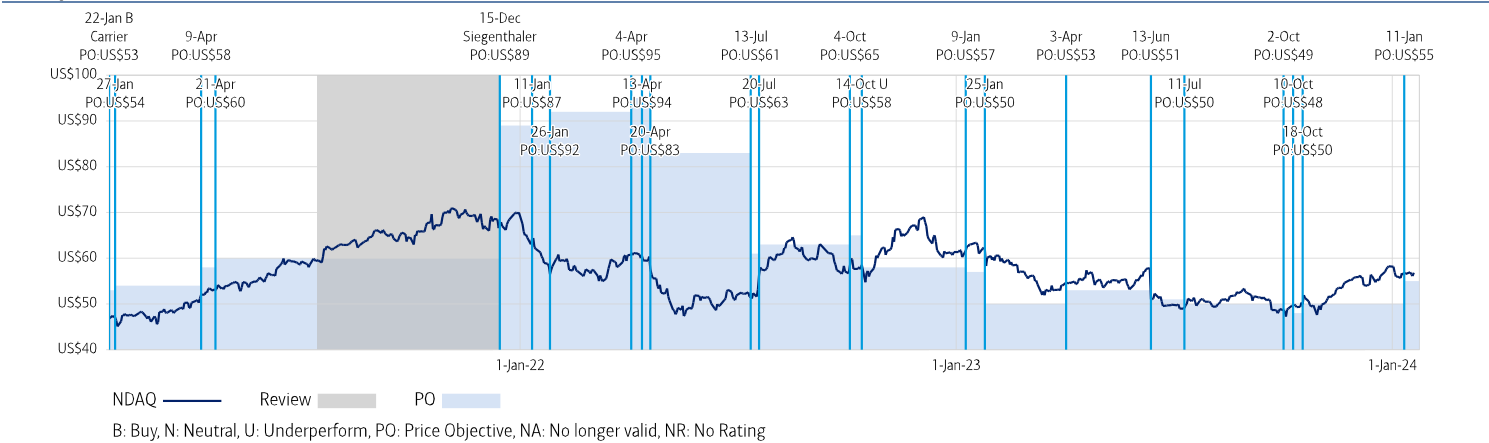
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Nasdaq (NDAQ) Price Chart



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Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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