

Nasdaq

Nasdaq's 2024 investor day is on Tuesday: What we expect? No change to guidance

Maintain Rating: UNDERPERFORM | PO: 55.00 USD | Price: 56.20 USD

Attending NDAQ investor day and meeting with management

Next Tuesday (March 5), we will be attending Nasdaq's 2024 investor day in New York City. In the past, the investor day has been an opportunity for management to update its medium-term guidance, showcase senior leadership, discuss secular themes, and expound on newer businesses. During the presentation portion of the event, we expect management to focus on the following topics: (1) Adenza, (2) the ramifications of artificial intelligence and the cloud, and (3) the improving listings backdrop. We maintain our Underperform rating due to growth headwinds.

Not expecting any significant guidance revisions

During the 2022 investor day, management raised its medium-term guidance. However, given that NDAQ came in at the low end of its current revenue guidance and slightly missed its 2023 revenue target for Adenza, we think that it will likely refrain from raising guidance this time. We expect it to maintain its 5-8% medium-term growth target for Capital Access Platforms, 10-14% target for Financial Technology, 7-10% target for Solutions, and 4-7% target for adjusted operating expenses.

Deep dive on Adenza and integration update

We expect the most time to be spent on Adenza, as management highlights the positive qualities of the deal. The acquisition has been heavily scrutinized by investors given its pricey valuation and is partly to blame for the stock's underperformance in 2023. We expect management to lay out a detailed plan for the business going forward and to update investors on the integration progress and cross-sell opportunity.

Expect cautious optimism on listings and IPO flywheel

We expect a constructive tone around 2024 listings activity. Management has repeatedly noted its strong IPO pipeline, and Nasdaq Economic Research views the current macro setup as the most favorable for listings since the end of the pandemic. Listing is a critical driver of enterprise-wide growth. Not only does NDAQ directly earn listing fees, but more IPOs benefit trading volumes and enable more corporate services cross-sells.

Focus on technology megatrends: Cloud & AI

Nasdaq's strategic pivot toward tech and information services has driven a rerating of the stock over the past decade. We expect management to continue to align NDAQ with technology megatrends, namely artificial intelligence and the cloud. Specifically, we expect to hear a detailed update on NDAQ's cloud partnership with AWS. Management could also speak extensively on how artificial intelligence has enabled innovation in its fintech and trading businesses (new order types) as well as driven demand for data.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	2.66	2.82	2.88	3.22	3.66
EPS Change (YoY)	5.6%	6.0%	2.1%	11.8%	13.7%
Consensus EPS (Bloomberg)			2.75	3.10	3.49
DPS	0.78	0.86	0.91	0.98	1.12
Valuation (Dec)					
P/E	21.1x	19.9x	19.5x	17.5x	15.4x
Dividend Yield	1.4%	1.5%	1.6%	1.7%	2.0%

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Stock Data

Price	56.20 USD
Price Objective	55.00 USD
Date Established	31-Jan-2024
Investment Opinion	B-3-7
52-Week Range	46.88 USD -60.72 USD
Mkt Val / Shares Out (mn)	32,425 USD / 577.0
Free Float	69.0%
Average Daily Value	130.65 USD
BofA Ticker / Exchange	NDAQ / NAS
Bloomberg / Reuters	NDAQ US / NDAQ.OQ
ROE (2024E)	22.8%
ESGMeter™	High

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AI: artificial intelligence

AWS: Amazon Web Services

IPO: initial public offering

NDAQ: Nasdaq

iQprofileSM Nasdaq

Income Statement Data (Dec)	2022A	2023A	2024E	2025E	2026E
(US\$ Millions)					
Total Net Revenue	3,581	3,896	4,692	5,034	5,464
% change	4.7%	8.8%	20.4%	7.3%	8.5%
Compensation & Benefit	(1,002)	(1,073)	(1,232)	(1,306)	(1,385)
% change	6.8%	7.1%	14.9%	6.0%	6.0%
Non-Compensation Expenses	(716)	(757)	(839)	(893)	(956)
% change	5.6%	5.7%	10.9%	6.4%	7.1%
Total Expenses	(1,718)	(1,830)	(2,072)	(2,199)	(2,341)
% change	6.3%	6.5%	13.2%	6.1%	6.4%
Operating Income	1,863	2,066	2,620	2,835	3,123
% change	3.3%	10.9%	26.8%	8.2%	10.1%
Reported Net Income	1,324	1,433	1,668	1,853	2,091
% change	4.1%	8.2%	16.4%	11.1%	12.9%
Adjusted Net Income	1,323	1,433	1,668	1,850	2,090
% change	3.9%	8.3%	16.4%	10.9%	13.0%

Performance Metrics (Dec)

	2022A	2023A	2024E	2025E	2026E
Operating Margin	52.0%	53.0%	55.8%	56.3%	57.2%
Compensation Expense/Revenue	28.0%	27.5%	26.3%	25.9%	25.3%
Non-Compensation Expense/Revenue	20.0%	19.4%	17.9%	17.7%	17.5%
Dividend Payout Ratio	29.0%	30.3%	31.4%	30.3%	30.4%

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Total Assets	20,868	24,860	25,316	25,832	26,414
Cash and Investments	502	92	514	991	1,529
Long-Term Debt	4,735	9,538	8,853	8,080	7,207
Total Shareholders' Equity	6,151	6,754	7,895	9,185	10,638

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

	2023	2024
Q1	0.69A	0.68E
Q2	0.71A	0.70E
Q3	0.71A	0.72E
Q4	0.72A	0.77E

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 \$55 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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	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



US - Brokers, Asset Managers, & Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	Franklin Resources	BEN	BEN US	Craig Siegenthaler, CFA
	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

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

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

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

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

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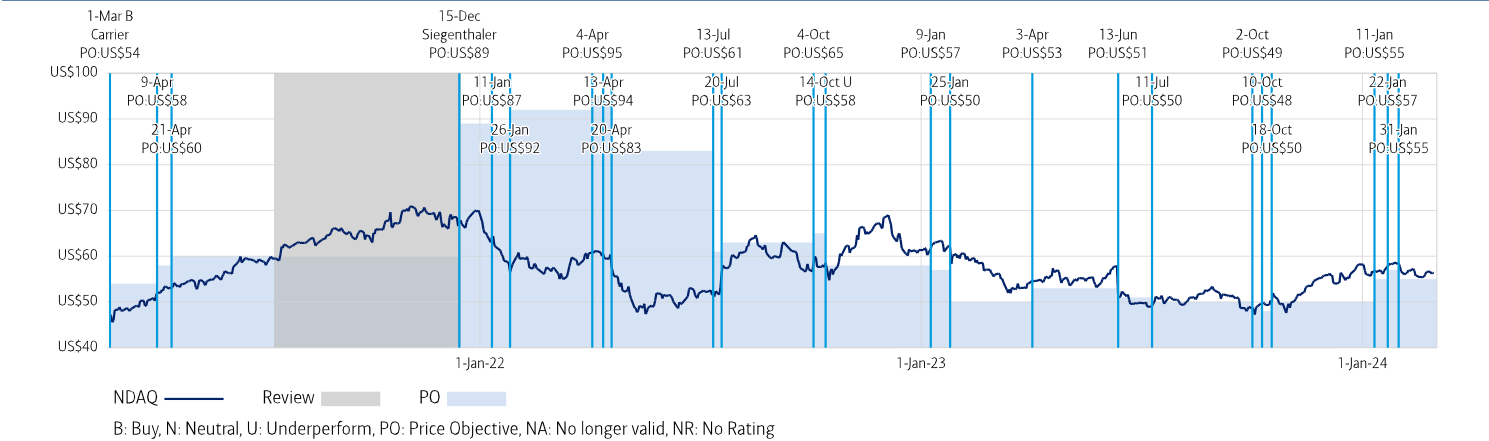
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Nasdaq (NDAQ) Price Chart



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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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