

Nasdaq

Our 10 key takeaways from Nasdaq's 2024 Investor Day

Maintain Rating: UNDERPERFORM | PO: 55.00 USD | Price: 56.93 USD

NDAQ hosted its 2024 investor day today in NYC

Earlier today, we attended the Nasdaq (NDAQ) Investor Day at its New York City headquarters. The event featured Nasdaq's senior leadership team including CEO Adena Friedman and provided a detailed update across its businesses. The presentation included a deep dive into the new Adenza business and an outline of management's strategic priorities over the medium term. While NDAQ provided several compelling arguments for its consistent growth trajectory, we maintain our Underperform rating given modest downside to our \$55 PO. Here are our 10 key takeaways:

1) Anti-financial crime: Momentum at Verafin with Tier 1s

Nasdaq disclosed that its third and most recent Tier 1 bank win at Verafin was Citigroup. This compares favorably to the first Tier 1 signing, which was the small US arm of a European bank. NDAQ noted that signings will take 9-12 months to be recognized as revenue, but they guided toward a contract value in the low seven-digit range.

2) M&A: Expect no big deals for three years

CEO Adena Friedman was very clear that they are not focused on M&A and ruled out any large deals for the foreseeable future. In terms of capital management, they will instead be focused on deleveraging. The messaging is intended to mitigate shareholder concerns around capital allocation that cropped up in the aftermath of the Adenza transaction. It will take about three years for NDAQ to de-lever to its long-term objective of 3x EBITDA, so we do not expect another large deal for at least 36 months.

3) Fine-tuning guidance and deleveraging slightly quicker

Management fine-tuned their financial outlook around revenues, expenses and leverage. Given the tailwinds from acquisition synergies, management commented that they expect to come in at the low end of their MT expense guidance and at the high end of their MT revenue guidance in 2024. They also accelerated their timetable for paying down debt. They now expect to deleverage to 3.3x EBITDA by May 2026 (prior target was November 2026).

4) Listings comeback in 2H24; Benefits NDAQ flywheel

Management expects the listings backdrop to normalize by 2H24. They noted that the IPO pipeline is building and that the team is meeting with a few dozen prospects per month. The recent Federal Reserve pivot, low volatility and improvement in market valuations are beneficial for IPO activity. If the IPOs slated for the next few months are successful, management expects a more sizable resurgence in 2H24.

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	21.4x	20.2x	19.8x	17.7x	15.6x
Dividend Yield	1.4%	1.5%	1.6%	1.7%	2.0%

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Stock Data

Price	56.93 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
Mrkt Val / Shares Out (mn)	32,847 USD / 577.0
Free Float	69.0%
Average Daily Value	139.60 USD
BofA Ticker / Exchange	NDAQ / NAS
Bloomberg / Reuters	NDAQ US / NDAQ.OQ
ROE (2024E)	22.8%
ESGMeter™	High

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MT: Medium-term

IPO: Initial public offering

CRM: Customer relationship management

SEC: Securities and Exchange Commission

BCBS: Basel Committee on Banking

Supervision

ESG: Environmental, social, and corporate governance

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

5) Restructuring business to promote cross-sells

Management is highly focused on cross-sells and reiterated their guide of \$100M of Adenza revenue synergies by 2027. New CFO Sarah Youngwood noted that the majority of 2023's revenue growth stemmed from existing clients, so executing on cross-sells will be key to reaccelerating growth in 2024. To this end, NDAQ has launched a "One Nasdaq" initiative to boost cross-sells across the firm. The initiative entails (1) the restructuring of NDAQ's sales force to promote enterprise-wide client relationships and (2) a single company-wide CRM. Specifically, Nasdaq is centralizing their disparate sales forces into a single organization and better educating salespeople on the full Nasdaq product portfolio.

6) Sum of the parts valuation more compelling

With the solutions segment now comprising 76% of pro forma revenues, the sum of the parts valuation case looks more attractive. Information services peers such as S&P Global, Moody's, FactSet and MSCI trade at 30-40x earnings, and these businesses have a fair amount of overlap with NDAQ's Capital Access Platforms segment. Nevertheless, NDAQ trades at ~20x consensus 2024 EPS. We note that NDAQ is trading more in-line with other equity exchange operators (TMX, Cboe Global Markets) and its financial vertical software peer group (FIS, Fiserv, SS&C Technologies, Broadridge).

7) Extensive AI applications across the business

Throughout the day, there were many case studies on the applications of artificial intelligence (AI) across Nasdaq. Management noted that they are now leveraging artificial intelligence in every single business. In Market Services, they use AI to determine which options strikes to list and will soon be rolling out Dynamic M-ELO, which is the first AI-powered order type. Their Anti-Financial Crime business has long leveraged algorithmic AI to flag suspicious activity, and more recently, they have created generative AI bots to assist with ad hoc investigations. Their Workflow & Insights and Calypso businesses use machine learning to provide advanced analytics. Lastly, we note that NDAQ's large data business should see strong demand related to the uptake of AI tools. NDAQ's data can be used to power third-party machine learning models.

8) Overhang from Thoma Bravo stake; Secondary risk

Aside from noting that their board representative provides a helpful and unique perspective on strategic decision making, management was reluctant to discuss Thoma Bravo's 15% ownership stake. We see a risk of a potential secondary equity offering starting in May when their share lockup expires.

9) Adenza tailwind from new regulations

Adenza is a beneficiary of the higher-for-longer rate environment and the recent uptick in regulations. Higher rates and capital costs have heightened the importance of optimizing collateral management, where Calypso is an industry leader. Additionally, the AxiomSL business should see tailwinds related to the active regulatory backdrop in finance, namely BCBS's Basel III End Game and the SEC's new ESG disclosure requirements. Additionally, management noted that the asset managers are an increasingly important end market and contribute 10% of AxiomSL's revenues today. Therefore, the business also stands to benefit from the SEC's pursuit of more granular disclosure around private funds.

10) Index options: Upside potential in NDX

While early days, we note that NDAQ is exploring ways to benefit from the growing popularity of index options. NDAQ's index options market share is just 1%, but volumes were up 54% y/y in 2023. NDAQ's QQQ is among the most popular options symbols in the market. If a portion of these investors would migrate to the analogous NDX index options series, we believe that NDAQ would at least quadruple its revenue capture on this flow, which would be a significant tailwind for the Market Services segment. Meanwhile, investors would achieve tax advantages and eliminate pin risk due to NDX's cash settlement. This gameplan mirrors CBOE's success with SPX versus SPY.





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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US - Brokers, Asset Managers, & Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	AllianceBernstein	AB	AB US	Craig Siegenthaler, CFA
	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
	Nasdaq	NDAQ	NDAQ US	Craig Siegenthaler, CFA



US - Brokers, Asset Managers, & Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	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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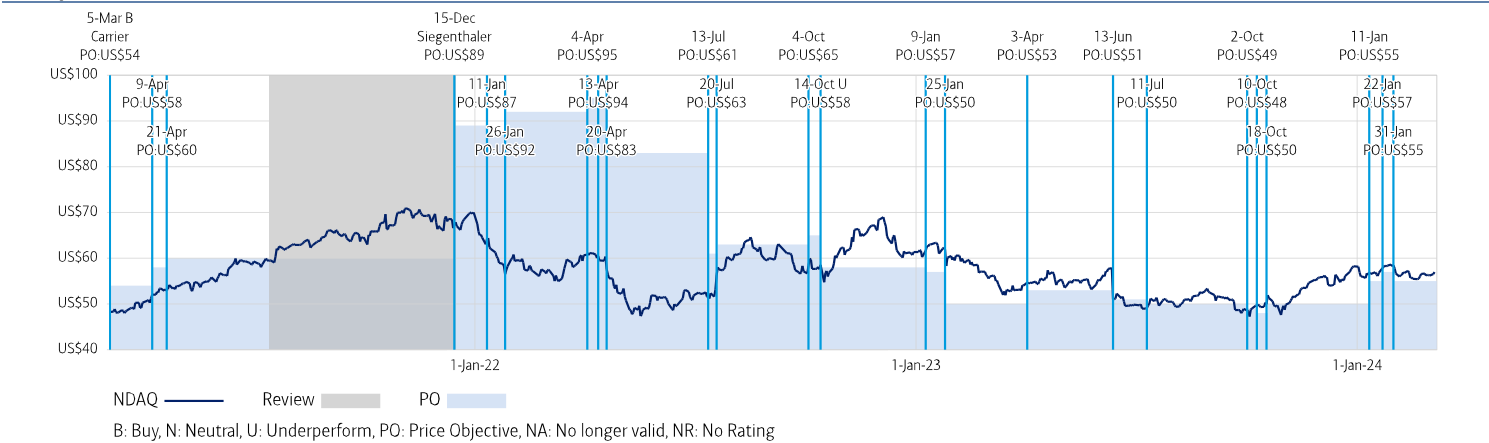
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Nasdaq (NDAQ) Price Chart



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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%

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