

Nasdaq

## 4Q23 First Impression – OK results

Reiterate Rating: UNDERPERFORM | PO: 57.00 USD | Price: 58.45 USD

## Core earnings beat driven by Adenza results

Nasdaq (NDAQ) reported adjusted EPS of \$0.72 vs. consensus of \$0.70 and BofAe of \$0.73. Net revenues (ex-Adenza) of \$968M were also roughly in-line with our estimates (\$967M). Although its results were predisclosed last week, we attribute the small beat to Adenza's strong 4Q23, which we do not believe was fully reflected in consensus.

## Below guidance Adenza revs but positive 4Q seasonality

Adenza's revenues (pre-disclosed) showed a small full-year miss (\$583M vs \$590M guidance for FY2023). However, the strong 4Q23 seasonality and the better than expected margins more than offset the top line softness.

## 2024 expense guide higher than expected

NDAQ is initiating its 2024 non-GAAP operating expense guidance at \$2,105M-\$2,185M, which is higher than our estimate of \$2,081M. Relatedly, we note that media reports indicate NDAQ will be conducting layoffs shortly (hundreds of employees).

## Earnings call @ 8am ET

The webcast is accessible via the investor relations site. We are focused on the following topics on the upcoming call: Anti-Financial Crime's tier 1 bank sales effort, the listings pipeline, and the Adenza integration progress. We maintain our Underperform rating, which 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.

## Exhibit 1: NDAQ 4Q23 actuals vs. our estimates

Financials are in-line with our estimates

	4Q22	3Q23	4Q23E	4Q23A	Beat (Miss) %	QoQ	YoY
Adjusted EPS	\$0.64	\$0.71	\$0.73	\$0.72	-1%	1%	13%
Net Revenues (ex-Adenza)	906	940	967	968	0%	3%	7%
US Cash Equity ADV (Shares, Ms)	1,931	1,693	-	1,799	-	6%	-7%
US Options ADV (Contracts, Ms)	12.5	12.5	-	12.4	-	-1%	-1%

Source: BofA Global Research Estimates

BofA GLOBAL RESEARCH

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)			2.81	2.77	3.11
DPS	0.70	0.78	0.86	0.91	0.98
Valuation (Dec)					
P/E	23.2x	22.0x	20.7x	20.2x	17.7x
Dividend Yield	1.2%	1.3%	1.5%	1.6%	1.7%

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31 January 2024

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## Stock Data

Price	58.45 USD
Price Objective	57.00 USD
Date Established	22-Jan-2024
Investment Opinion	B-3-7
52-Week Range	46.88 USD -60.99 USD
Mrkt Val / Shares Out (mn)	33,724 USD / 577.0
Free Float	69.0%
Average Daily Value	134.81 USD
BofA Ticker / Exchange	NDAQ / NAS
Bloomberg / Reuters	NDAQ US / NDAQ.OQ
ROE (2023E)	22.3%
ESGMeter™	High

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# iQprofile<sup>SM</sup> 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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	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
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	Cboe Global Markets	CBOE	CBOE US	Craig Siegenthaler, CFA
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	Raymond James Financial	RJF	RJF US	Mark McLaughlin, CFA
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	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
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	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
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	Franklin Resources	BEN	BEN US	Craig Siegenthaler, CFA
	Nasdaq	NDAQ	NDAQ US	Craig Siegenthaler, CFA

## US - Brokers, Asset Managers, &amp; Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	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

**iQmethod<sup>SM</sup> 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 &amp; 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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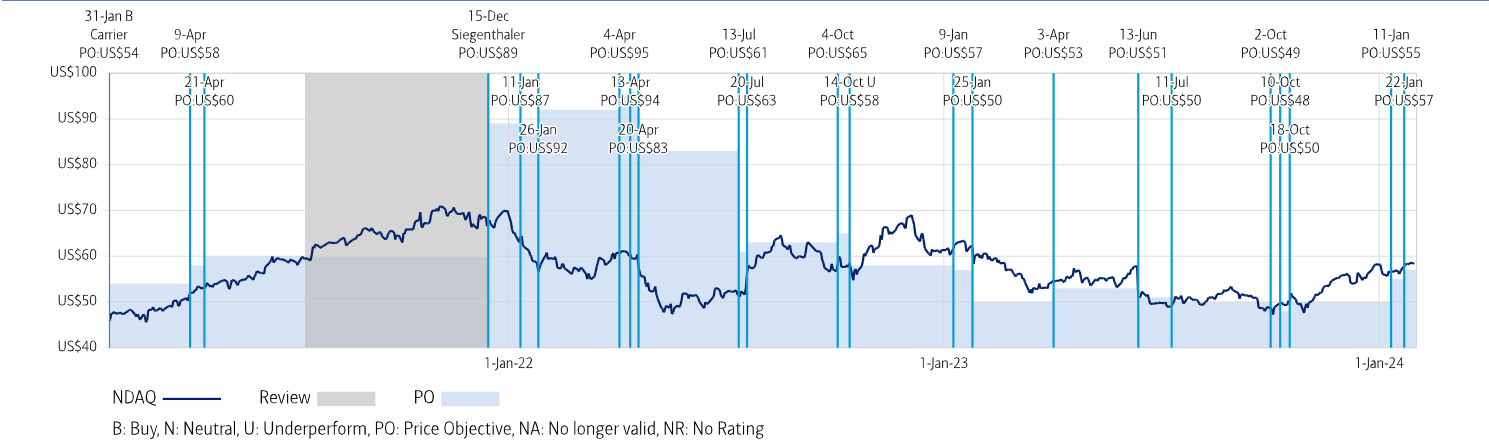
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Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	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 <sup>R1</sup>	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%

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Underperform	N/A	≥ 20%

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