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Nasdaq's (NDAQ) CEO Adena Friedman on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-23-19 Earnings Summary

Press Release *10-Q* *Slides*

EPS of $1.27 beats by $0.06 | Revenue of $632M (5.33% Y/Y) beats by $4.56M

Earning Call Audio

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Nasdaq, Inc. (NASDAQ:NDAQ) Q3 2019 Earnings Conference Call October 23, 2019 8:00 AM ET

Company Participants

Ed Ditmire - VP, IR

Adena Friedman - CEO

Michael Ptasznik - CFO

John Zecca - Chief Legal & Policy Officer

Conference Call Participants

Rich Repetto - Sandler O'Neil

Michael Carrier - Bank of America

Kwun Lau - Oppenheimer

Chris Allen - Compass Point

Alex Kramm - UBS

Alex Blostein - Goldman Sachs

Chris Harris - Wells Fargo

Brian Bedell - Deutsche Bank

Kyle Voigt - KBW

Dan Fannon - Jefferies

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Nasdaq Third Quarter 2019 Results Conference Call. At this time, all participants lines are in a listen-only mode. After the speakers' presentation there will be a question-and-answer session. [Operator Instructions]. Please be advised that today's conference is being recorded. [Operator Instructions].

I would now like to hand the call over to your speaker today Mr. Ed Ditmire, Vice President of Investor Relations. Thank you. Please go ahead, sir.

Ed Ditmire

Good morning, everyone and thank you for joining us today to discuss Nasdaq's third quarter 2019 financial results. On the line are Adena Friedman, our CEO; Michael Ptasznik, our CFO; John Zecca, our Chief Legal and Policy Officer; and other members of the management team. After prepared remarks, we'll open up to Q&A.

The press release and presentation are on our website. We intend to use the website as a means of disclosing material non-public information and complying with disclosure obligations under SEC Regulation FD.

I'd like to remind you that certain statements in this presentation and during Q&A may relate to future events and expectations, and as such constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results may differ materially from these projections and information concerning factors that could cause actual results to differ from forward-looking statements is contained in our press release and periodic reports filed with the SEC.

I will now turn the call over to Adena.

Adena Friedman

Thank you, Ed. Good morning everyone and thank you for joining us.

I’m pleased to report Nasdaq financial results for the third quarter of 2019. Guided by our renewed strategic ambitions, we have been consistently focused on leveraging technological advancements to deliver for our clients, while creating sustainable value for our shareholders. That focus is reflected in today’s strong results where we are seeing significant contributions from across the franchise.

My remarks today will focus on business unit highlights and strategic initiatives from the quarter as well as a brief commentary on the broader macroeconomic environment in which our businesses operate.

The third quarter experience its share of volatility as the world continues to grapple with the potential ramifications of Brexit, the U.S., China, trade negotiations, and more mixed macroeconomic signals.

While the environment present some uncertainties, the performance of the markets continue to reflect a risk on appetite. Among our clients, we see continuing demand for technology, data, and analytics, due to three longer-term trends, including first the competitive forces driving continuous demand for efficiency; second, the regulatory changes requiring more effective monitoring and surveillance, while protecting information and data privacy; and third, continuing pressure on all market participants to identify new alpha generating growth opportunities.

As we progress through the year, we've continued to experience those trends, with a few supporting factors in the third quarter. For instance, the attendance at our Nasdaq Surveillance Conference in Paris last week drew record numbers from a diverse range of attendees and focus specifically on what the future of trade surveillance looks like.

Market Technology order intake was strong during the third quarter through a combination of new customers and contract extensions with existing customers. We also continue to find new demand for our data products from customers coming to market and through geographic expansion outside the United States and the performance of the markets coupled with these general trends, particularly towards passive investment strategies continues to support our expanding Index business with AUM in ETPs benchmarked to Nasdaq’s Proprietary Index products, reaching a new peak as investors continue to put their savings to work in higher return areas of the financial markets.

Examining the impact of the current macroeconomic environment on Nasdaq’s markets related businesses, our core markets in the U.S. and Europe experienced strong share and healthy volumes in the quarter as volatility picked up with the macroeconomic and political backdrop.

Turning to the IPO environment, it remains quite active with Nasdaq’s new issue pipeline standing at healthy levels as we finish 2019 and transition into 2020. We've seen a small number of high profile IPOs decided to postpone listings, while others have seen stock performance in the immediate aftermarket. But we are always quick to remind investors that the success of a company in the public markets is driven by the company's fundamental business and financial performance over time, not by the trading behavior in the first few days and months as a public company.

Additionally, every IPO has its own story. So it is hard to discern trend from a small sample set of specific situations. In fact, we continue to have productive and positive conversations with companies seeking to tap the public markets within the next year. They are however, rightfully increasingly focused on demonstrating to prospective investors the scalability of their business models and their plans to achieve profitability if they are not already profitable upon going public.

With that consideration, they remain enthusiastic about entering the public markets and gaining access to permanent equity capital.

Now moving on to our specific results, the third quarter of 2019 demonstrated how Nasdaq can achieve solid growth, while remaining efficient and disciplined in our execution. This has been a key tenet of our corporate strategy since we announced our strategic repositioning in 2017.

We delivered third quarter 2019 net revenue of $632 million, including 8% organic revenue growth from our non-trading segments. We're encouraged that our quarterly and year-to-date organic growth rates across our non-trading business segments remained consistent with our medium-term objectives, while the more trading sensitive Market Services business continues producing near multi-year highs.

Our financial achievements in that period were driven by solid growth in our expanded technology and analytics offerings, strong progress on deploying our next-generation market technology solutions, and enhancing our offerings to the private markets as well as maximizing the opportunities that our busy trading and IPO environment provides.

Turning to the segment's specific highlights from the third quarter. I'm pleased with the progress that we're seeing across all areas of our business. Our Information Services business saw an increase of 11% in revenue during the period. This was due to expanded contribution from our fast growing Investment Data & Analytics businesses, continued strong growth in our index business reflecting a 28% increase in the trading of Futures contracts linked to the Nasdaq 100 Index, and a record $207 billion of ETP assets under management, tracking the Nasdaq indexes and continued growth of clients using our proprietary market data offerings.

During the quarter, we were excited to announce the launch of Nasdaq 100 Futures contracts on the Taiwan Futures Exchange, the first Nasdaq 100 Futures contract listed outside the United States.

We continue to see strong client traction also in our Market Technology segment. We saw revenues increase 24% from the prior-year period due to both January's acquisition of Cinnober as well as organic growth of 9%.

Our new order intake of $62 million included a multi-year contract extension with Bolsa Mexicana de Valores for Market Surveillance, a multi-year extension with the New Zealand Exchange for Trading and Surveillance Solutions, and the addition of a new exchange client in Southeast Asia who plans to adopt our next-generation Nasdaq Financial Framework Market Technology as well as our Surveillance Solution.

Our Corporate Services segment was lifted by another strong quarter of IPO wins, and an increase in subscriptions in our IR Intelligence Unit, where we're seeing multiple engagements around our recently introduced ESG Advisory Services for public companies.

During the period, Nasdaq led U.S. exchanges by welcoming 41 IPOs among 66 total new listings. The new listing highlights include the IPOs of Datadog, Peloton Interactive, and Afya, the latter of which is our third Brazilian listing in the last 12 months as well as the listing transfers of Interactive Brokers Group and Exelon Corporation to Nasdaq. Nasdaq's European exchanges added eight new listings, including four IPOs during the third quarter, with EQT Partners' IPO in Sweden becoming one of the largest Nordic offerings ever with a total raise of 12.8 billion Swedish kronor.

These results build on an outstanding year for Nasdaq listings business. In the first nine months, Nasdaq has won 76% of the 181 U.S. IPOs including six of the largest 10 and the IPOs that have come to Nasdaq have raised $27.5 billion in capital.

Also within the Corporate Services segment, we were pleased to acquire during the third quarter the Center for Board Excellence, a privately held provider of corporate governance and compliance solutions for Board of Directors, CEOs, Corporate Secretaries and General Counsels. By combining CBE with our Nasdaq governance solutions business, we aim to establish a leading provider of technology, research insights, and consultative services designed to advance governance excellence and collaboration at organizations role worldwide.

Nasdaq also made some significant strides in the Nasdaq Private Market, announcing during the quarter a partnership with PJT Partners Park Hill division, which is intended to leverage the Nasdaq Private Market to transform and modernize the process for executing private equity fund secondary transactions. We believe this is an exciting and unique used case for our private market center designed to bring greater standardization and efficiency to the secondaries market and appeal to general partners, limited partners and secondaries investors alike.

In Market Services our U.S. and Nordic equity and equity derivatives businesses capitalized on a healthy trading environment with strong market share. We're very pleased that our clients across our U.S. equities and options markets, as well as our Nordic markets are fully engaged with us to utilize our market capabilities to support the trading and investing strategies.

We’re also encouraged to note a continued interest in ESG trading products and services. Just after the close of the third quarter, our European sustainable debt market in Stockholm surpassed 200 listed instruments, while trading in the OMXS30 ESG index future reached 1 million contracts after just one year on the market. These two milestones serve to underscore the Nordic region's leading position within sustainable finance, a position Nasdaq will continue to look to expand upon across our geographic reach in the quarters to come.

As I wrap up, I will summarize by saying that the third quarter results served as further evidence that we can deliver on our strategic direction for our clients and our shareholders. We are encouraged by our momentum as we head into the final months of the year.

And with that, I will turn it over to Michael to review the third quarter financial details.

Michael Ptasznik

Thank you very much, Adena, and good morning everyone.

My commentary will primarily focus on our non-GAAP results and all comparisons will be to the prior-year period unless otherwise noted.

Reconciliations of U.S. GAAP to non-GAAP results can be found in the attachments to our press release and in the presentation that's available on our website at ir.nasdaq.com.

I will start by reviewing third quarter revenue performance as shown on Page 3 of the presentation and organic revenue growth on Pages four and 14.

The $32 million increase in reported net revenue of $632 million was a net result of organic growth of $37 million, including 8% organic growth in the non-trading segments. A $2 million net positive impact from acquisitions and divestitures and a $7 million unfavorable impact from changes in foreign exchange rates.

I will now review quarterly highlights within each of our reported segments. I'll start with Information Services, which has reflected on pages five and 14 saw a $19 million or 11% increase in revenue. This is driven by $19 million or 11% organic growth, $4 million of which was a result of the Vestment's purchase price adjustment on deferred revenues in Q3 2018. Excluding this adjustment, organic growth would have been $15 million or 8%. In addition to the growth in index licensing revenue that Adena already mentioned, the increase was also driven by new sales of market data and analytics, as well as higher revenue from unreported data usage.

Market Technology revenue as shown on pages six and 14 increased $16 million, or 24%, including organic growth of $6 million or 9%. Organic growth during the period primarily reflects an increase in SaaS surveillance software revenues, an increase in the size and number of software delivery projects, and higher change requests and advisory revenues.

Turning to Corporate Services on pages seven and 14, revenues increased $3 million or 2%. Organic revenue growth was 3% or $4 million, reflecting an increase in the number of listed companies and higher revenues from our IR Intelligence offerings.

Market Services net revenues on pages eight and 14 saw a $4 million or 2% increase. Excluding the negative $4 million impact from unfavorable changes in foreign exchange, the organic revenue increase was $8 million or 4%. Organic growth during the period primarily reflects an increase in equities derivatives trading revenue, partially offset by declines in FICC.

Turning to pages nine and 14 to review expenses. Non-GAAP operating expenses increased $6 million to $317 million. The change reflects an $11 million or 4% organic increase and a $1 million increase from the net impact of acquisitions and divestitures, partially offset by $6 million favorable impact from changes in foreign exchange rates. Third quarter 2019 non-GAAP operating expenses came in lower than we expected when we discussed our expense guidance in July due to factors including new hire timelines, which have lengthened incrementally, the impact of a strengthening U.S. dollar as well as a modest expense reimbursement received in the quarter and certain other costs that were delayed.

Turning to Slide 10, we are lowering our 2019 non-GAAP operating expense guidance range to $1.285 billion to $1.295 billion, which implies a range of $325 million to $335 million in the fourth quarter of 2019.

The new full-year guidance centers on an organic expense growth level of less than 2%. The anticipated sequential pickup in fourth quarter 2019 expenses is consistent with a 4% average sequential increase we experienced in prior fourth quarter periods. This reflects the impact of both product and other initiative spending, as well as some seasonal pickup of certain expenses such as marketing, compensation, and peak seasonal revenue related costs.

Moving to operating profit and margins, non-GAAP operating income increased $26 million in the third quarter of 2019. And the non-GAAP operating margin was 50% up two percentage points from the prior year period. The increase in part reflects the benefits from a business model that is becoming more scalable as we evolve. We have strategically pivoted to reorient our product and business portfolio toward more SaaS offerings and continue to make investments in our technology platform that we expect to provide for greater operating leverage. We continue on that journey today. And as part of that, we are initiating a restructuring plan that principally focuses on certain elements of our technology platform, particularly as we execute and accelerate our evolution within our technology and analytics offerings.

Given the inflection point that the company has reached with NFF, certain elements of our legacy marketplace infrastructure and technology product offerings will be retired as we transition and further implement NFF internally and externally. As a result of these actions, the company expects to incur $65 million to $75 million in pre-tax GAAP charges over the next two years, including $30 million recognized in the third quarter.

The charges are related principally to non-cash items such as asset write-downs and accelerated depreciation as well as third-party consulting costs. The impact of restructuring plan will be excluded from our non-GAAP reporting.

Separately in the third quarter of 2019, we recognized a $20 million non-cash provision associated with the industry's Consolidated Audit Trail or CAT initiative. This charge is a consequence of changes to the Consolidated Audit Trail project. In particular, the consortium’s decision to impair the value of technology built by the original vendor who has subsequently been replaced.

Net interest expense was $26 million in the third quarter of 2019, a decrease of $9 million versus the prior period due to lower debt balances and the refinancing of the 5.55% $600 million U.S. denominated bond with a new 1.75% €600 million Euro bond.

The non-GAAP effective tax rate for the third quarter of 2019 was 27% and for the full-year 2019, we continue to expect the non-GAAP tax rates to be between 26% and 27%.

Non-GAAP net income attributable to Nasdaq for the third quarter 2019 was $212 million or $1.27 per diluted share compared to $189 million or $1.13 per diluted share in the prior year period.

Turning to capital on Slide 11, debt decreased by $11 million versus Q2 2019, primarily due to an $84 million decrease in the Euro note book value caused by changes in FX rates partially offset by $72 million net borrowing of commercial paper.

Our total debt to EBITDA ratio ended the period at 2.6 times, down from 2.7 times after the second quarter of 2019.

During the third quarter of 2019, the company returned $150 million to shareholders through a share repurchase program and paid a common dividend in the aggregate of $78 million. In the first nine months of 2019, the company returned $428 million to shareholders through dividends and/or share repurchase program. Continuing our commitment to capital return, yesterday our board authorized an additional $500 million for our existing share repurchase program.

Thanks for your time and I'll turn it back to the operator for Q&A.

Question-and-Answer Session

Operator

[Operator Instructions].

Our first question comes from Rich Repetto with Sandler O'Neil. Your line is now open.

Rich Repetto

Yes, good morning, Adena and good morning, Mike. I guess the question is on market technology, you continued to see solid performance there and the ARR went up as well as the pipeline. But I guess the question is that percentage of ARR to the annualized revenue is trickling down. And I'm just trying to understand is that -- I know it's made up a change the difference made up a change fees and other non-recurring revenue. Is that a good thing that the percentage is going down? How should we interpret that?

Adena Friedman

Sure. Thanks Rich and it's great to hear from you. So in terms of the way that we look at ARR and the pipeline that obviously gives you a sense of how well the company is continuing to find new clients and how well we're developing in terms of our recurring revenue streams. But we do -- you will see ebbs and flows of that percentage to overall revenue quarter-by-quarter based on how many shorter term change request types of revenue that we end up bringing in. And in the third quarter, we did have some of that in the third quarter. And so therefore, you might have seen some shifts in the overall kind of composition. But that's going to -- that's going to ebb and flow quarterly, but it should not indicate a trend.

Rich Repetto

Okay. And my semi-related follow-up would be your debt to EBITDA ratios now at sort of the target level. And are you comfortable, I guess with this sort of payout ratio. And what should be the -- I guess the trend of what the dividend buybacks, et cetera, are going for capital return going forward?

Michael Ptasznik

Yes, thanks Rich. So we're going to stick with our capital plan that we've disclosed, which is we obviously going to number one invest in a great opportunities continue to grow the business that meet our strategic and financial criteria. Secondly, we're going -- we have a dividend policy that says that we will grow our dividend, as earnings and cash flow grow over time. Third, we're going to primarily use buybacks to offset any dilution from any equity programs that we have. And then, fourth, we want to maintain our investment grade rating. And so those are the way we think about our capital priorities.

If the cash continues to build up over time, and we -- since we're such a strong cash flow business, then -- and we don't see any good investments or opportunities in the short-term or the foreseeable future, then we will look to return that cash to shareholders. But that's not going to be a quarterly thing. It's going to be something that will evolve over time. And so we'll continue to take a look at the horizon. And if we doesn't look like we have something further out, then we will look to return that cash to shareholders through buyback.

Operator

Thank you. Our next question comes from Michael Carrier with Bank of America. Your line is now open.

Michael Carrier

Right. Good morning and thanks for taking the questions. I guess maybe just on the tech plan. You mentioned some of the charges related to migrating to the new platform. I guess, just on the on the positive side when you think over the next few years as this process takes place, what are some of the benefits that you expect to realize over time?

Adena Friedman

Sure, yes. So as Michael mentioned, the restructuring plan is really meant to help us migrate and transition to the new technology both from architect and for our internal market. So I think it's important to recognize that we're really looking at how we can deploy the Nasdaq financial framework across our markets as well as continuing to provide and expand our offerings to our other market tech clients.

And so I think that when we look at the benefits that we can provide to our customers across our own markets, it creates more flexibility in terms of the ability for us to enhance our products over time. It also creates a common technology stack across all of our markets, which we now operate in multiple stacks today within the U.S. versus Europe. It makes it so that we have -- we obviously hope to achieve a more efficient technology organization by having one technology underpinning and one technology architecture that supports those markets and market tech.

And then also from a from the client's perspective, it does allow us to be more nimble in terms of giving them new features, applying, bringing more data and data analytics and potentially algorithmic capabilities into our markets platform. And over time, we also -- this platform, as you know, can be deployed in the cloud. So it gives us the opportunity to start to think about that for our future. I think within market tech, we are already deploying clients in the cloud using the Nasdaq financial framework. And we will be retiring other systems over the next several years as we move some of our clients on -- more and more of our clients on to the next-generation platforms.

So it's really meant to position ourselves, Mike, to be able to take advantage of the technology that we're bringing to life. And I do think it will create efficiencies, better efficiencies, operational efficiencies in terms of technology build and deployment times better feature function capability and more flexible infrastructure for both us and our clients.

Michael Carrier

Right, that's helpful. And Michael just a real small and just on the data, business revenue seemed a little stronger. I think you mentioned something on audit, but if you wanted to just quantify that.

Michael Ptasznik

Yes, we did have a stronger audit or recovered -- have reported usage this quarter so it was $9 million this quarter.

Michael Carrier

Okay. Thanks a lot.

Michael Ptasznik

It was $4 million in last year, the same period last year and $6 million last quarter.

Operator

Thank you. Our next question comes from Kwun Lau with Oppenheimer. Your line is now open.

Kwun Lau

Good morning and thank you for taking my questions. Recently, Adena, you mentioned that the regulators can make the public market more inviting compared to the private markets. I guess, what does it take for us to get there? What is a good way for market participants to encourage the regulators to kind of review the current disclosure requirements for public companies?

Adena Friedman

Sure. Well, I think that the foundation of the public market is a disclosure regime. And we do believe that that generally works. So I think the focus that the regulators we've asked regulators to have on these disclosures though is disclosures that are really meant to support an investor's ability to make an informed financial decision. Sometimes there are, frankly politics that come into the mix. And then creep into the disclosure obligations that really aren't meant to be helpful to investors, but helpful to frankly, further certain political ambitions. And so we want to try to make sure that the disclosure regime really stays true to what it's meant to support, which is employee and IM, investor information.

I think the second thing though, is that there are other elements of the public market that make it so that if you are have ready access to capital in the private market, are you ready to come into the public markets? And the few things that we hear certainly are the issues around the proxy process, the issues around the resubmission thresholds for proxy proposals. The -- I would say the nature of the proxy advisory firms and some conflicts of interest there as well as lack of disclosures that they have around how they manage their recommendations and proxies as well as the litigation regime and other things that come with going -- with selling -- going public.

And so we are working very closely with the regulators. And on the Hill, there's a receptive audience to a lot of what we're proposing, but obviously it's a process. And, we have seen some real action and movement, both in Congress and at the SEC as they're examining these issues and trying to find a balance between making sure you are properly protecting investors, but you're also creating a more inviting environment for companies and we've been very supportive of what they've been doing.

Kwun Lau

That's very helpful. A follow-up question related to market tech. So revenue and organic growth was strong, ARR increased, and operating margin went up to 18% from 10% quarter-over-quarter. How should we think about the margin going forward? With bands around because you will continue to retire at the Sunset O [ph] system and make new investment in Nasdaq financial framework or you can list the whole margin at this level. Thank you.

Adena Friedman

Sure. Well, what we've been saying to investors and we continue to say is, is that we've been in a period of strong investment in the Market Technology business, which over the last couple of years has brought down the margins, we will continue to make investments.

But as we continue also to grow the business and move our clients to a more efficient platform, we do believe that we will be able to start to show some margin improvements in 2020 and 2021. And the idea is though to get ourselves into a more staff orientation in the delivery of our services to our clients and even when we are providing on-prem services, can we be more of a managed service provider to them over time on using the next-gen platforms. Those things, in addition to just being more efficient and being able to deliver services to our clients should allow us to start to show some margin improvement in the coming years.

But we also say that quarter-over-quarter is not really a good way to look at the overall margin to the market tech business, we tend to look at things in periods of years just because there can be various things that impacted quarter’s results. So if we're in a period of heavy implementation for clients that can sometimes bring down the margin in a quarter, but if we also have more shorter-term revenue coming in that could bring up the revenue for the quarter and the margin for the quarter. So it to me it's better for you to look at it year-over-year. And I think we're hoping to be able to demonstrate a trend over in the coming years towards higher margins.

Operator

Thank you. Our next question comes from Chris Allen with Compass Point. Your line is now open.

Chris Allen

Good morning everyone. I wanted to ask about just the longer-term impact around the tech replatforming moving to context, how they should translate to expense savings over the longer-term. So just wonder if you could maybe provide us any color how the kind of the new platform will compare for technology expense run rate versus kind of the current platform?

Adena Friedman

Well, I think that just the ability for us over the coming years, and it will take time, I do want to say both in terms of moving our own markets onto the platform, we're going to do this in a very measured way, we're going to take time to make sure that we are working with our clients, bringing them onto the platform and then managing it across the multiple markets we have in the United States and Europe.

So it will take time, I think it's important to recognize it. It's been measured in years, not months or quarters. But also so when we’re moving on to a single platform, just the ability for us to operate on a single technology, infrastructure, and architecture should provide us efficiencies. The ability for us to implement changes faster with less effort should provide efficiencies. And over time, we can also look at how we want to manage our infrastructure and how we can create synergies or efficiencies by moving some or all of our capabilities to the cloud in the future. But that's definitely more future oriented.

I think that in terms of the market tech business, we also are able to start to move people to a more common architecture and platform. And that also will provide efficiencies to us, as well as efficiencies to our clients. And if we also then become more of a managed service provider and a SaaS provider of services that is definitely more efficient for our customers, but that also creates revenue opportunities for us as well. So those are the areas that we're focused on in terms of the benefits that this technology platform migration will provide us.

Chris Allen

And just a quick follow-up on the expenses, can you provide the magnitude of the expense reimbursement that was noted and also the color on what the $10 million in mergers strategic initiative, what that is related to? Thank you.

Michael Ptasznik

Sorry, can you just repeat the question.

Adena Friedman

Yes, can you repeat the question we’re just trying to make sure we are going to answer the right question, sorry.

Chris Allen

Yes, in fact in the comments, I believe you noted that there was a positive legal and expense reimbursement this quarter. So I was just wondering what the magnitude was in terms of dollar costs, and then the $10 million mergers strategic initiatives, any color on that specifically related to?

Michael Ptasznik

Yes, sorry Chris. So the expense reimbursement was in $1 million to $2 million range for the quarter and then in the $10 million that's related to the initiatives that we were executing on, which is the sale of the BWise business as well as the acquisition of Cinnober so -- and Quandl. So that's, that's what's included in there.

Operator

Thank you. Our next question comes from Alex Kramm with UBS. Your line is now open.

Alex Kramm

Hey, good morning. I think quick ones from me, first one on the equities pricing. I think you highlighted volume tiers and strong volumes. But 10% sequential drop is obviously pretty big. So any more color, what exactly is going on there and then also quarter-to-date? Maybe if that net back a little bit or what -- what we should be thinking about as we think about all models going forward?

Adena Friedman

Sure. So I think that within the quarter we did have, we definitely saw the composition of our clients, and therefore the tiers. So it's really, it's a multifactor calculation in terms of looking at overall capture rates. So it has to do with overall volumes, and therefore every firm being more likely to hit tiers. But then also the composition of clients, and who's coming in and leveraging the market and what kind of tiers they are able to achieve.

And so I think and then on top of that the share. So if you have higher sharing, you're getting just more activity in the market, it's likely that people will then will also hit tier. So I think there has been minimal changes to our pricing, but as you know, we are always looking to tweak our pricing to make sure that we are attracting flow into our market but we're also managing our overall client relationships there and but there hasn't been any -- there hasn't been anything dramatic impacting the quarter. And I would say we are always looking to manage that the right way and but we don't have anything specific to discuss in terms of looking at the fourth quarter.

Alex Kramm

Okay, thank you. And then staying within market services, the kind of more recurring line item they are the trading services, trade management services. Now flat year-over-year that was probably a little bit of a negative FX impact but despite all that, obviously no growth and I guess it makes sense with end markets and limited growth in market making firms et cetera. But is there anything coming up that can help that again, I mean new initiatives, new services, maybe something in Europe that that can actually drive some growth again here because this is, I mean, it's a pretty big revenue item for you and we don't talk about it a lot. Thank you.

Adena Friedman

Yes, no it’s a good question. It is a very stable part of our business. But when we look at the ins and outs, I think what we see every month actually is new clients coming in and taking more ports or opening up new capabilities, and then other clients deciding that they're going to dial back on certain things. So it's really kind of a mix underneath it, underneath the total number, where certain customers are spinning up new strategies and other customers are changing their strategies.

So and then we have had some consolidation of firms not so much this year, but we saw more of that last year that's flowing through this year. So it's maintained stability, but it hasn't been a grower for us.

In terms of looking at into the future, I think that we are always working to make sure we provide the right environment for our clients. We want to make sure it's affordable to come in and trade on Nasdaq. So we don't look to make major changes there to make sure that we are creating a very strong, very, very attractive way to come into the market. But at the same time, then getting the revenue impact from higher share as well as from more listed companies coming in et cetera. So it's kind of a means to an end, I would say.

There isn't anything specific, Alex, that we're planning on that I could -- that I can talk about that is -- that would really drive that to a different state to be honest, it's definitely we've considered a low-single-digit grower for us.

Operator

Thank you. Our next question comes from Alex Blostein with Goldman Sachs. Your line is now open.

Alex Blostein

Hey, good morning, everybody. A question with respect to recent changes by the e-brokers obviously taking commission on equity trading and ETFs to zero. Just curious how you guys think it could impact the ecosystem and then specifically with respect to market data, I know there's always some pressure on that but it feels like right now it's going to become a little bit more pronounced given the half year revenue hole to makeup. So maybe help us size kind of how meaningful market data revenue contribution for you guys from the likes of Ameritrade, E*Trade, Schwab, IBKR? And how should we think about the rest of that revenue pool?

Adena Friedman

So I think that if we look at the broader ecosystem first, I think that it seemed to us that it was interesting to watch how it all played out. But I think that we've gotten a sense that that there were definitely expectations over time that those pieces continue to decline. I think the rise of obviously Robinhood and the level of participation the Robinhood broker has definitely I think created; the people have been preparing or planning for this.

And you've seen that the e-brokers have been diversifying or many of them are diversifying their revenues in recent years, to be able to be prepared for a lower fee environment.

In terms of the impact of the decision to kind of wave that kind of went through. I think that's the whole ecosystem is still evaluating how that will impact things. But when we look at own markets, we get very little direct order flow from retail brokers today; they tend to go through the wholesalers.

I think the payment for order flow regimes are I'm sure will be examined. But at the same time -- at the same time they're doing this, they also have new disclosure obligations on best execution. And that I think, that is going to be a big determinant factor as to how the overall brokers look at managing their order flow going forward, they're likely to want to have more clarity on the definition of Nasdaq because it's a pretty vague definition today.

And but they know that they have this obligation, so that their ability to manage their order flow, they have best experts [ph] on everything. So they hopefully will also see opportunities potentially to bring more flow directly into the market under that and as well as make sure that they continue to spread their flow to make sure they're achieving the best execution. So all of that is going to be an interesting thing to play out. We actually see some opportunities that could come on the back of that.

In terms of the market data side, we work very closely with all of the retail brokers to make sure that they are optimizing their data costs. We have lower costs proprietary products that they can use in many of the circumstances that their clients need market data for. So it's really up until the point of trade they are allowed to use substitutes to the SIP data. And we provide much lower cost products to the consolidated tape, and we have enterprise cap so that they can therefore really leverage that and make sure that they know they don't have an ever escalating costs as they are driving more participation into their systems. And we work very closely with them to make sure that they're balancing the need for the consolidated tape in certain circumstances, but on the choices that they have for proprietary data. So we actually don't see a significant change or anything from this because we already are working with them to try to make sure that they have efficient options and that they're deploying them the right way.

Alex Blostein

Got it. Thanks. And then just a quick follow-up question around the restructuring. Michael I think you said $65 million to $75 million in pre-tax GAAP charges over the next couple of years. Can we get the breakdown, what's going to be the write-down versus accelerated depreciation? And then ultimately, how much in incremental CapEx we will be thinking about going forward as you guys build out the new systems?

Michael Ptasznik

Yes, so we don't have the specific breakdown, but the majority of the expense will come through either write-down or accelerated depreciation. So the combination of the two and it's really about when the platforms roll off. And so the $30 million that we saw this quarter, a big chunk of that was the write-down aspect of it and a good portion of the rest will be accelerated depreciation plus another one-time cost that we have as part of the implementation. So that's with respect to that and we don't have any -- doesn't have any material impact on the depreciation run rate that we've seen this quarter. And we'll just for -- when we give the guidance for next year, we'll build into that whatever the impact would be for the depreciation of the investment going forward.

Adena Friedman

And I also say from a CapEx perspective, you've seen, you can kind of see how we've been managing CapEx for the last three years as we've been building this platform and will continue to manage our CapEx to make sure that we're being efficient in how we're building it. But that the CapEx does exist today already reflects a lot of the work that we're already -- that's underway, and that will continue.

Michael Ptasznik

There shouldn't be a huge step up in, don't expect a huge step up in the depreciation amortization list because we're transitioning from one system to the other. And that's what some of this is, is the amortization. So we don't have a doubling up of that amortization expense in that period.

Operator

Thank you. Our next question comes from Chris Harris with Wells Fargo. Your line is now open.

Chris Harris

Thanks, good morning. There's been a lot of change in the Corporate Solutions business over the last couple of years. And it's in further movement in that segment this past quarter. Can you remind us just high level, what are the primary businesses left in Corporate Solutions and longer-term what are your expectations for growth?

Corporate Solutions and longer-term what are your expectations for growth?

Adena Friedman

Sure. Well, in Corporate Services in general, we have our listings business, and then we have our IR intelligence business, and we have our governance solutions business. And so those are the three key elements of the Corporate Services business unit. And as you can see, we are making sure that we provide the best possible products and services to support companies as they're coming into the public market with their new stakeholder base, which are investors, as well as managing to an increasingly complicated governance structure as a public company. And so those that's why these are kind of strategically aligned with who we are as an exchange but these services are offered to companies all around the world regardless of where they live.

In terms of some of the work we've been doing to shore up and create new services, what we’re really focusing on is how can we advise our clients and provide products and services that help them deal with the changing environment. ESG is a big growing trend within the industry with among investors. So we've been building out a capability really a consultative capability. And we will look at how we can also bring products into that mix to provide more solutions for our clients as they're managing increasing disclosure obligations against ESG.

And then on the governance side, we made a small acquisition this quarter that really adds a lot of advisory and consultative services as well as really good tools to handle things like board surveys, director surveys, things that really help them manage their public company board. And we can then over time look at integrating that into our board portal solution so that it creates a more all-in solution. But we're going to make sure that we manage that in a way that is in a really value additive to our clients. But those are the types of things that we're doing to continue to build out and grow those businesses in connection with our listings business.

Michael Ptasznik

And the overall growth target for that business over the medium-term is 3% to 5%.

Operator

Thank you. And our next question comes from Brian Bedell with Deutsche Bank. Your line is now open.

Brian Bedell

Great, thanks. Good morning, folks. Adena, can you just give us a little bit of a refresh on where we stand in the market data regulatory through battle with the SEC and also the XSV pilot and then any thoughts on the timing of when members exchange just to come to market, are you hearing any commentary having any conversations about that eventuality with clients?

Adena Friedman

Sure. Well on the market data and accuracy pilots, just from our process perspective. With the accuracy pilots, there was a hearing a couple weeks of ago now. So it's kind of sitting in the court hands to determine the outcome there. I think we feel confident that we gave very good arguments. So I think us and our exchanges, did a nice job of demonstrating from a procedural perspective why we believe this pilot requires more review and evaluation by the SEC, and we'll see how that -- how the court -- what the court decides on that.

In terms of market data. We're just now in the process of starting to put together some of the briefs that the court will then consider in the first half of next year. And so that's a process that is still ongoing. So that's just from a process perspective.

I would say from a point of view perspective. We on the market data side, we continue to provide more and more disclosures to our clients and to everyone around how our market data revenue is defined, how it's changed over the years, what's driven improvements and increases in our market data revenues. And as we did put out a very comprehensive what we call MythBusters piece that shows that revenue increases over the last 10 years in our market data business, only 2.4% of our overall revenue increases CAGR has come from price changes, whereas the rest of the growth has come from new customers and new products and then further penetration in our existing clients.

And we break that out in a lot of detail in this piece. And then we also provide other facts and figures that really helps support the fact that we are, we believe very, very focused on delivering great value to our clients at a reasonable price. And I think our actions have been -- our actions have been consistent with that. And so we will continue to provide that type of information to clients, so that they can make a more informed decision as to how they look at us as a provider of market data to them.

And then lastly, on NYMEX, we don't have any more information than you do. So we are here running our business, we will be prepared for any competition that comes along. And that's the way we operate here.

Brian Bedell

That makes sense. So it sounds like predict the market data and accuracy that you are talking about, still talking about the distant future from any kind of implementation of anything, if that. So, still nothing really impacting even 2020 at this stage from?

Adena Friedman

Yes, it’s hard to know. I mean, I think that we have on the accuracy pilot, we've made our case and we'll see how it goes. And we may get a decision before the end of this year. And then there would be whatever is decided then would just flow through the next part of the process, which will take some time.

On the market data, I think it's still months away before we kind of understand our kind of our case in the court.

Brian Bedell

Great. And then Michael just on the market tech revenue side, I know your fourth quarter is always seasonally strong for that business. If you could just I know give us an insight of whether we think that's going to continue to be the case for this fourth quarter, and you mentioned the Southeast Asian, when is -- when do you expect the revenue to come in from that client, and just a quick progress update on non-financial clients. And it's been a big, long-term growth initiative.

Michael Ptasznik

Yes, so I'll start with the first one, I'll let Adena talk a bit -- first two and then I'll let Adena talk a bit about the financial markets. So on the quarter, so we would expect to see typical seasonality, I will say that we did. Normally we see an increase in change request in the fourth quarter due to timing of budgets, et cetera. We did see some of that comes through in the third quarter this year. It's hard to quantify that amount in totality.

But I would say that there was, say $2 million to $3 million of additional revenue that we would have seen -- that we saw in the third quarter that you typically would have expected to see in the fourth quarter. So that did happen this year.

And then on the Southeast Asia, I don't think it will have any material impact specifically that one client. I just wanted to flow through. And so it will just be, just think about that with the rest of the modeling that you do, and then Adena on the new markets?

Adena Friedman

Yes, and I would just say on any new client now, we start to recognize revenue as soon as we start building for them and start deploying, and so with that particular client, to the extent that it's going to be a cloud-based service, it's going to be structured more as a subscription service. And it will be -- it will start to be at a charge that once we start work with them, just kind of how their revenue recognition works.

And on new markets, I think that we continue to be very optimistic around how we can deploy our technology outside the traditional capital markets. And we have had some recent news in terms of some areas, some opportunities for us in the betting space. We continue to engage very well with clients in other industries that we just don't have anything specific this quarter to disclose. But we definitely are seeing behind the scenes a lot of good activity as people are starting to think about how to use two sided markets as a means to support pricing and to bring their clients into the decision making around pricing. And it's been a really interesting and I would say very encouraging start to that initiative.

Operator

Thank you. [Operator Instructions]

Thank you. [Operator Instructions].

Our next question comes from Kyle Voigt with KBW. Your line is now open.

Kyle Voigt

Hi, good morning. Thanks for taking my question. Adena, you've done a good job of getting to kind of shift earnings mix of the company and building out this analytics business, divesting some of the non-core slower growth assets. Just when you're looking at the collection of assets at Nasdaq today, do you still think there's opportunity to accelerate the strategic pivot further through divesting additional assets? Or was that something that's already been reviewed and executed upon when you first announced that pivot two years ago?

Adena Friedman

Sure, well, we actually do a review every year now just to understand the overall composition of our business, where we're continuing to make the right investments in these businesses, what maybe non-core going forward, which may have been core in the past. And so I would just say that it is a continuous process today.

We don't have anything specific to discuss here. But I think that you should assume that we're always understanding and evaluating how we're developing the businesses and how we can make sure we're providing the right value to our clients. And if we don't feel like we can provide the right value to our clients, then we should look at how we -- whether or not we should continue to own that business and I think BWise is actually a good example of that. So we made that decision and we executed that here in this year because of the fact that, it's a great product and it's a great service to our clients, but the space was changing. It's a pretty small asset in the enterprise risk management space in a space that was consolidating. So we either needed to really kind of decide to lean in and invest more in the business and potentially make other further acquisitions there, or find a new home for where they could have it as part of a roll-up strategy and provide better, better ongoing service to the clients.

And we made the latter decision because just we decided it was not core to who we are, wasn't core to our corporate relationships. And we wanted to make sure that we were prioritizing our investment in areas that we see more growth prospects for us, notably the prioritizing our investment in areas that we see more growth prospects for us, notably the Nasdaq Financial Framework, Market Tech, and our data business. And therefore, that's why we made that decision. So that's the kind of thing we do, but we're not going to do that every quarter, every period but we will consistently look at our portfolio over time.

Kyle Voigt

Okay, thank you. And then just a clarification question on the retiring of some of those marketplace infrastructure offering. Could you just provide some more details as to how that works operationally, with your market tech clients that may be utilizing that technology today, are those clients forced to migrate to the Nasdaq Financial Framework? And then just from a timing standpoint, could you kind of help frame in that market technology business when you'd expect a kind of majority of those market tech clients to be kind of migrated onto Nasdaq Financial Framework in a technology infrastructure?

Adena Friedman

Sure. So we do not we're not in the business of forcing clients, we really do. We take a very customer friendly approach to this. We do walk in as they have contract renewals and they're thinking about making changes or upgrades to their market, we walk through and talk to them about what their choices are. And we then allow them to make their own decisions. And we give them a range of choices. So they can understand that they could stay on certain platforms for a period of time, there may be some periods well into the future where we really do start to try to be, I would say more prescriptive but right now what we're saying is, there's a huge opportunity for you to enhance your capabilities to provide better data management inside your organization to get potentially over time to a lighter footprint, as your markets continue to evolve and to future proof your market.

And on the back of that, we have found that I think 50% of new sales to has been onto the Nasdaq financial framework, but not all of them. And so we're still evolving our capabilities. And with that evolution, we think that we'll be able to increase that number over time. But this is something that you should assume happens in slow motion. And we said that from the very beginning, it will take many years for us to work with our clients to move them more towards the unified solution, and we will be patient around it, so that we manage our client relations along the way.

Operator

Thank you. And our next question comes from Alex Kramm with UBS. Your line is now open.

Alex Kramm

Hey, I think my follow-up just got answered. But just very quickly on a separate topic, then can you just very briefly talk about the relationship with PJT in the secondary, I guess for the equity stake market, you mentioned briefly, but maybe just run through the revenue model and how we should be thinking about the TAM, I think this is probably a very long-term opportunity. But just how you’re thinking about it financially?

Adena Friedman

Sure. So yes, we are actually really excited about that partnership. And it does provide a true near-term revenue opportunity for the Nasdaq private market based on the partnership agreement we signed. So, it will allow PJT is today the largest provider of what we call GP lead secondary. So when a general partner decides to manage a secondary transaction, one of their funds, they tend to use brokers to help facilitate that and PJT or Park Hill is the largest among these GP sponsored brokers. And so we are working with them, they're finding that they are actually hitting a wall in terms of their ability to facilitate these deals just based on the manual processes involved and the length of time it takes to facilitate the secondaries.

And so they see us as actually an enabler for them to be able to handle more volume, more capabilities. And when we look at how many GP led sponsored secondaries that occurred in private equity last year, I think it was in the range of $40 billion. Yes, so it's probably in the range of $30 billion to $40 billion changed hands in the context of GP sponsored secondaries. The overall secondaries market last year in private equity was $80 billion so that includes those LP led and GP led secondaries.

And I think that, so we definitely see this is actually as a large total market opportunity for us. We are already working with them on an initial program. We've been working very closely to integrate our technology with them. And so we do think that we will be able to provide some immediate benefit to them and to their clients in 2020. So very excited about it.

Alex Kramm

Okay. And then actually, my original follow-up very briefly, I apologize if you mentioned it. But in terms of the transition to NFF, it sounds like some of your existing clients are definitely doing the transition. How -- do you have any numbers? Maybe you’ve mentioned this, like how many of your clients have not transitioned? And maybe what kind of economics, you've been picking up both on the revenue and on the margin side, if they have transitioned I know it's probably a small sample so far, but any color would be great. Sorry if you answered this already.

Adena Friedman

Yes, we haven't provided any disclosures on differences in margins and revenues yet, I think that that's something we will take back and think about. I think that in terms of overall client migrations among our existing clients, it's still a pretty small number, but actually, it's been really interesting. So some of our larger clients are moving towards that platform, so they might take it for instance the Australian Stock Exchange is looking at deploying components of the Nasdaq Financial Framework into the next-gen trading system. And so some of our larger clients are understanding where the benefits come from. We have several new clients that have signed up for us to provide clearing services in the context of that, we are actually building out and deploying our next-gen clearing solution on to NFF and then delivering it to them.

So that but that is something we're in the process of building and deploying, so that won't be, these are longer-term projects. And they take -- generally take 18 months to two years to complete. So we have some significant size clients moving on to the platform, and then the new clients, so certainly the new bedding client, we mentioned last quarter, as well as the client we mentioned in Southeast Asia. They're just natively going on to the Nasdaq Financial Framework as new customers. So we don't -- we have not yet provided like stats and details and we'll take that back as a feedback from you.

Operator

Thank you. And our last question comes from Dan Fannon with Jefferies. Your line is now open.

Dan Fannon

Thanks. Mike, just a question on expenses, R&D expenses continue to track lower this year. Can you talk about what initiatives that are coming in lower than expected? And then I apologize if you gave this, but have you given kind of the initial framework to think about 2020 expenses, and what how we should think about growth into next year?

Michael Ptasznik

Sure. So on the initiatives, we continue to invest in all the initiatives that we have on the programs, I think, going back to my earlier remarks, some of that is really just a matter of hiring and bringing in the bodies in order to build out those initiatives is taking a little bit longer than we originally had anticipated, which is what's causing the reductions and there's not one specific initiative and where there's been a cut back on.

I would say, if anything, we're very excited about the opportunities there and there's more initiatives that are coming in the door. We look to want to continue to invest within that what we call our Nasdaq next R&D bucket. And so it's premature for us to be giving any sort of forward guidance for next year at this point in time. Again we've been around that 3% mark and of our total revenue, and we will continue to look at how much R&D, we want to continue to invest in the business. It is an important driver of our long-term growth, we believe and as I said, we're excited about a number of the different initiatives that we have across the organization. But we'll be providing much more color in our next quarter's results. So stay tuned.

Operator

Thank you. Ladies and gentlemen, this concludes our question-and-answer session. I would now like to turn the call back over to Adena Friedman for any closing remarks.

Adena Friedman

Thank you. Well, in closing, we are very encouraged by our third quarter results and how it underscores our ability to execute on our new strategic direction. We will remain focused on delivering results against our 2019 priorities as we finish out the year. So thank you very much for your time today.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.