

Nasdaq, Inc. (NDAQ)

\$116.37 (As of 03/04/20)

Price Target (6-12 Months): **\$122.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 04/04/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: D

Momentum: B

Summary

Nasdaq has been successful in maximizing opportunities as a technology and analytics provider and growing core marketplace businesses. Its focus on growth via acquisitions and organic initiatives, which aided its entry into new markets and helped it gain cross-selling opportunities, bodes well. The company's intense focus on Market Technology and Information Services businesses also helps it to explore vast opportunities as per its developmental strategies. A strong balance sheet helps it to invest in growth opportunities. Nasdaq remains committed to returning capital to its shareholders in forms of dividends and share repurchases. Its shares have outperformed the industry in the past six months. However, high costs have put a strain on operating margin expansion. Also, high debt level and low interest coverage ratio raise financial risk.

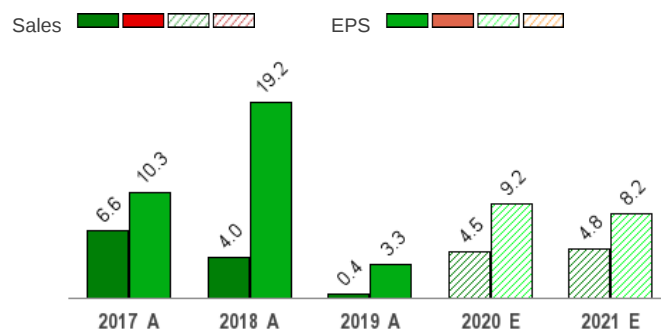
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$120.23 - \$82.22
20 Day Average Volume (sh)	1,018,447
Market Cap	\$19.2 B
YTD Price Change	8.7%
Beta	0.68
Dividend / Div Yld	\$1.88 / 1.6%
Industry	Securities and Exchanges
Zacks Industry Rank	Bottom 29% (180 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	1.6%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	0.5%
Expected Report Date	04/22/2020
Earnings ESP	-0.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	682 E	689 E	701 E	715 E	2,776 E
2020	651 E	655 E	666 E	676 E	2,650 E
2019	634 A	623 A	632 A	644 A	2,535 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.39 E	\$1.43 E	\$1.47 E	\$1.50 E	\$5.91 E
2020	\$1.31 E	\$1.34 E	\$1.38 E	\$1.43 E	\$5.46 E
2019	\$1.22 A	\$1.22 A	\$1.27 A	\$1.29 A	\$5.00 A

*Quarterly figures may not add up to annual.

P/E TTM	23.3
P/E F1	21.3
PEG F1	2.9
P/S TTM	4.5

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/04/2020. The reports text is as of 03/05/2020.

Overview

Founded in 1971 and headquartered in New York, Nasdaq Inc. is a leading provider of trading, clearing, marketplace technology, regulatory, securities listing, information and public and private company services.

The company's global offerings are diverse and include trading and clearing across multiple asset classes, trade management services, data products, financial indexes, capital formation solutions, corporate solutions, and market technology products and services. Its technology powers markets across the globe, supporting equity derivative trading, clearing and settlement, cash equity trading, fixed income trading, trading surveillance and many other functions.

In the United States., the company operates The Nasdaq Stock Market, while in Europe, it operates exchanges in Sweden, Denmark, Finland, and Iceland as Nasdaq Nordic, and exchanges in Estonia, Latvia and Lithuania as Nasdaq Baltic.

Nasdaq manages, operates and provides products and services in four business segments: Market Services, Corporate Services, Information Services and Market Technology.

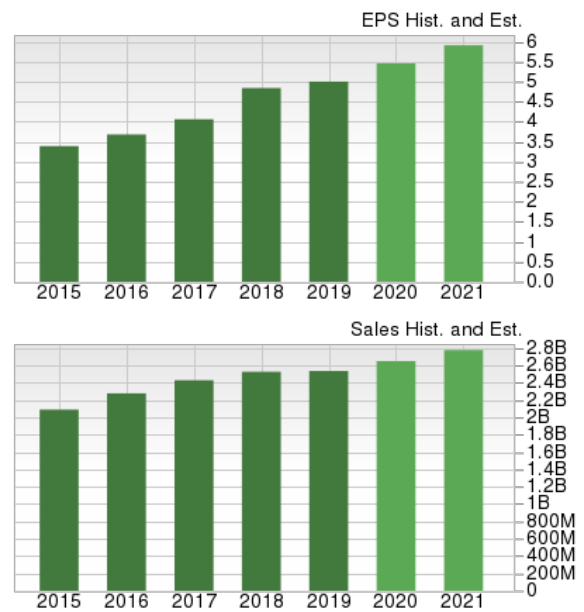
Market Services (36% of 2019 Revenues): The segment includes Equity Derivative Trading and Clearing, Cash Equity Trading, FICC and Trade Management Services businesses.

Information Services (30.7%): The segment's businesses include Market Data, Index and Investment Data & Analytics.

Corporate Services (19.6%): The segment delivers critical capital market and governance solutions across the lifecycle of public and private companies. Its operations encompass Corporate Solutions and Listing Service.

Market Technology (13.3%): This business is a leading global technology solutions provider and partner to exchanges, clearing organizations, central securities depositories, regulators, banks, brokers, buy-side firms and corporate businesses.

Other Revenues (0.4%) include revenues from the Public Relations Solutions and Digital Media Services businesses, which were sold in April 2018.



Reasons To Buy:

- ▲ Shares of Nasdaq have inched up 11.6% in the past six months, outperforming the industry's growth of 2.2%. Moreover, solid fundamentals should help the stock move higher than the industry.
 - ▲ Nasdaq has grown meaningfully over the years through a number of strategic expansions. These acquisitions have helped the company gain direct access to the Canadian equities market, expand its technology offering, and fortify its Corporate Solutions business and improve its market surveillance techniques. The company's acquisition of eVestment, Cinnober, Quandl among others, have enhanced its capabilities and been accretive to its results. The acquisitions of Cinnober and Quandl made a positive impact on Nasdaq's revenues. Nasdaq has acquired Center for Board Excellence (CBE) to extend its reach within the boardroom by providing technology solutions. Moreover, it inked new deals with Airbus subsidiary, Skytra, extended old partnerships with the existing marketplace clients like Japan Exchange Group, etc. All these initiatives bode well for the company.
 - ▲ Nasdaq also remains focused on improving growth via organic means. The company thus expects growth from its index and analytics businesses followed by moderate growth in its exchange data products across U.S. and Nordic equities, options and fixed income businesses, driven by a widespread client base. In fact, the company is on track regarding its goals of maximizing opportunities as an innovative analytics and technology partner in the capital markets, develop and deploy marketplace economy technology strategy and consolidate competitive edge in its core businesses. To this end, the company divested Public Relations Solutions and Digital Media Services businesses to West Corporation in April 2018 and BWISE in April 2019 to maximize its potential as a technology and analytics provider to the capital market.
 - ▲ Nasdaq reviews its operations to expedite the growth plans. As a result, Nasdaq intensified its focus toward Market Technology and Information Services businesses, offering the biggest growth opportunities per the company's developmental strategies. The company also sets sights on its core special marketplace platform businesses but intends to lower capital resources for investment in business that do not offer considerable growth for Nasdaq. Also, technology expansion with SMARTS surveillance in nonfinancial markets testifies the company's focus to capitalize on emerging opportunities in the cryptocurrency markets. It remains focused on expansion of Trade Surveillance, data analytics and integrity solutions. Also, divestiture of 5% equity stake in LCH Group Holdings Limited reflects the company's endeavor to free up capital from less core areas to deploy the same in growth initiatives.
- Nasdaq's organic growth has been also aided by its strategy of accelerating its non-trading revenue base, which includes market technology, listing and information revenues, and management's long-term outlook calls for 5-7% growth, thereby infusing dynamism in its business profile. The company's organic growth in non-trading segments was 8% in 2019, driven by Market Technology, Index and Investment Data & Analytics businesses.
- ▲ Nasdaq boasts a healthy balance sheet and cash position along with modest operating cash flow from its diverse business model. A healthy balance sheet ensures shareholder-friendly moves like dividend hikes and share repurchases. With the 7% hike in April 2019, the company's dividend payout saw a three-year CAGR of 13%. Its dividend yield of 1.7% better than the industry average of 1.4%, making the stock an attractive pick for yield-seeking investors.
 - ▲ Nasdaq remains committed to deploy capital effectively by de-leveraging, investing in organic growth initiatives, pursuing strategic acquisitions, increasing dividend and engaging in buybacks. In 2019, the company returned \$505 million to its shareholders through share buybacks and dividends.

Nasdaq remains focused on growth through acquisitions as well as organic initiatives that enable entry and cross-selling opportunities into new markets at a low-cost and highly-flexible platform.

Reasons To Sell:

- ▼ Nasdaq witnessed a rise in expenses due to the development and diversification of its business, compensation and benefits, merger and strategic initiatives, restructuring charges, general, administrative and other expenses, which weighed on operating margin expansion. Operating expenses of the company has been rising over the past many years inducing margin contraction. In 2018 and 2019, the metric rose 5.5% and 1.3% year over year, respectively. Nonetheless, to account for strong organic growth, Nasdaq expects non-GAAP operating expenses for 2020 in the range of \$1.31-\$1.36 billion, down 12.1% from the reported figure of 2019.
- ▼ Nasdaq's debt has been increasing over the last few years. Leverage ratio (Debt to Capital) of 37.1% compared unfavorably with the industry average of 19.9%. Also, times interest earned, a measure of a company's ability to meet its interest payments, is 9.2, comparing unfavorably with the industry average of 11.4. The company's high indebtedness and low interest coverage ratio raise financial risk.
- ▼ Nasdaq has been facing intense competition with the wave of mergers and acquisitions (M&A) in the stock exchange industry. This includes both product and price competition that has continued to increase as a result of the creation of new execution and listing venues in the U.S. and Europe. While exchange operators across the globe are expanding their operating efficiencies through significant M&A, Nasdaq also seeks to diversify beyond product and geography. The addition of rival trading platforms over the recent years have not only cut the market share held by the exchange operator, but have also been pressurizing fees generated from handling trades and volumes, thereby directly hampering the liquidity.

Escalating costs due to the development and diversification of its business weighing on the operating margin expansion, stiff competition and regulatory issues remain key concerns for Nasdaq.

Last Earnings Report

Nasdaq Surpasses Q4 Earnings and Revenue Estimates

Nasdaq reported fourth-quarter 2019 adjusted earnings per share of \$1.29, beating the Zacks Consensus Estimate of \$1.27 by nearly 1.6%. The bottom line increased 2.4% year over year.

Nasdaq witnessed growth in non-trading revenues. Strategic acquisitions contributed to revenues in the quarter. The company continued to deliver solid growth in its expanded technology and analytics offerings while benefiting from rising equities market share and a dynamic trading and IPO environment.

Quarter Ending **12/2019**

Report Date	Jan 29, 2020
Sales Surprise	0.46%
EPS Surprise	1.57%
Quarterly EPS	1.29
Annual EPS (TTM)	5.00

Performance in Detail

Nasdaq's revenues of \$646 million increased 0.2% year over year. The upside was primarily attributable to a \$22 million positive impact from organic growth in the non-trading segments and a \$15 million increase from the inclusion of revenues from acquisitions, partially offset by a \$21 million organic decrease in Market Services revenues, a \$10 million negative impact from divestitures and a \$5 million unfavorable impact from changes in exchange rates. Organic revenues grew 8%. The top line beat the Zacks Consensus Estimate by 0.8%.

Adjusted operating expenses were \$335 million, up 2% from the year-ago period owing to an \$8 million organic expense increase and a \$1 million increase from the net impact of acquisitions and divestitures, partially offset by a \$4 million favorable impact from changes in foreign exchange rates.

Operating margin of 49% expanded 100 basis points year over year.

In the U.S. market, Nasdaq witnessed 107 new listings, including 50 IPOs.

Nasdaq's European exchanges added 17 new listings, including 12 IPOs, and added 53 new listings including 34 IPOs in 2019.

Segment Details

Net revenues at Market Services were down 9.6% from the year-ago quarter to \$225 million. This downside was largely due to lower revenues from equity derivative trading and clearing.

Revenues at Corporate Services increased 4.9% year over year to \$129 million, driven by higher listings services revenues as well as corporate solutions revenues.

Information Services revenues rose 3.7% year over year to \$194 million.

Higher index revenues and investment data & analytics revenues drove the upside.

Revenues at Market Technology increased 28.9% year over year to \$98 million, largely riding on Cinnober acquisition and organic growth.

Financial Update

Nasdaq had cash and cash equivalents of \$332 million as of Dec 31, 2019, down 39.1% from 2018-end level. As of Dec 31, 2019, long-term debt increased 1.3% from 2018-end level to \$3 billion.

Capital Deployment

The company paid out \$305 million in dividend and spent \$200 million in share buybacks during the fourth quarter.

As of Dec 31, 2019, Nasdaq had \$632 million remaining under its share repurchase authorization.

Dividend Update

The board of directors announced quarterly dividend of 47 cents per share.

Guidance

Nasdaq provided 2020 non-GAAP operating expense guidance in the range of \$1.31 billion to \$1.36 billion.

Non-GAAP tax rate is estimated to be in the range of 25.5% to 27.5% in 2020.

Recent News

Nasdaq Partners KSEI to Launch CSD Solution – Feb 26, 2020

Nasdaq has partnered with KSEI to launch a CSD solution. This new solution will enable KSEI to process larger volumes of transactions with increased capacity and boost the expansion of Indonesia's capital markets.

Nasdaq Boosts Trade Surveillance With Data Discovery Tool - Jan 7, 2020

Nasdaq has launched a data discovery tool within Nasdaq Trade Surveillance, which is widely used as a surveillance solution by the sell-side industry.

The newly launched data discovery tool will help the compliance teams to manage their trading and surveillance activity in a better way.

Nasdaq Introduces Sustainable Bond Network – Dec 10, 2019

Nasdaq announced the launch of Sustainable Bond Network, a web-based platform. It is expected to improve transparency in the market for green, social and sustainable bonds.

Valuation

Nasdaq's shares are up 8.6% and 32.8% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are up 8.9% and down 7.7% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 33.5% and 0.7%, respectively.

The S&P 500 index is down 3.1% in the year-to-date period and up 11.6% in the past year.

The stock is currently trading at 21x forward 12-month price to earnings, which compares to 27.4x for the Zacks sub-industry, 13.8x for the Zacks sector and 17.9x for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.7x and as low as 13.7x, with a 5-year median of 16.7x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$122 price target reflects 22.1x earnings.

The table below shows summary valuation data for NDAQ

Valuation Multiples - NDAQ					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.02	27.37	13.75	17.89
	5-Year High	21.70	27.47	16.21	19.34
	5-Year Low	13.73	18.49	12.01	15.18
	5-Year Median	16.74	21.72	13.97	17.46
P/S F12M	Current	7.19	12.95	6.55	3.3
	5-Year High	7.35	12.95	6.65	3.43
	5-Year Low	3.84	7.27	5.39	2.54
	5-Year Median	4.95	9.7	6.04	3.01
P/B TTM	Current	3.40	3.54	2.61	4.18
	5-Year High	3.47	3.54	2.89	4.54
	5-Year Low	1.42	1.81	1.83	2.85
	5-Year Median	2.20	2.55	2.52	3.62

As of 03/04/2020

Industry Analysis Zacks Industry Rank: Bottom 29% (180 out of 255)



Top Peers

Cboe Global Markets, Inc. (CBOE)	Neutral
CME Group Inc. (CME)	Neutral
Intercontinental Exchange Inc. (ICE)	Neutral
Moodys Corporation (MCO)	Neutral
MarketAxess Holdings Inc. (MKTX)	Neutral
MSCI Inc (MSCI)	Neutral
OTC Markets Group Inc. (OTCM)	Neutral
Investnet, Inc (ENV)	Underperform

Industry Comparison Industry: Securities And Exchanges				Industry Peers		
	NDAQ Neutral	X Industry	S&P 500	CBOE Neutral	CME Neutral	ICE Neutral
VGM Score	D	-	-	C	F	D
Market Cap	19.20 B	19.20 B	22.29 B	13.10 B	80.14 B	55.44 B
# of Analysts	7	6.5	13	7	7	7
Dividend Yield	1.62%	1.21%	1.97%	1.21%	1.34%	1.10%
Value Score	D	-	-	F	F	F
Cash/Price	0.04	0.04	0.05	0.02	0.02	0.04
EV/EBITDA	16.41	17.88	13.20	18.87	25.83	17.27
PEG Ratio	2.79	2.80	1.94	4.30	5.03	2.80
Price/Book (P/B)	3.40	3.91	3.05	3.91	3.06	3.23
Price/Cash Flow (P/CF)	18.70	19.53	12.16	18.30	27.56	19.53
P/E (F1)	20.68	23.92	17.58	24.21	30.46	23.92
Price/Sales (P/S)	4.51	8.47	2.45	5.24	16.46	8.47
Earnings Yield	4.69%	4.18%	5.69%	4.13%	3.28%	4.18%
Debt/Equity	0.59	0.27	0.70	0.27	0.14	0.32
Cash Flow (\$/share)	6.22	6.22	7.01	6.48	8.11	5.13
Growth Score	D	-	-	B	D	C
Hist. EPS Growth (3-5 yrs)	11.74%	13.74%	10.85%	22.48%	16.44%	13.74%
Proj. EPS Growth (F1/F0)	9.14%	9.09%	6.26%	3.56%	7.96%	7.95%
Curr. Cash Flow Growth	0.39%	7.25%	6.03%	-6.75%	12.13%	7.25%
Hist. Cash Flow Growth (3-5 yrs)	10.02%	15.93%	8.52%	25.08%	16.24%	15.62%
Current Ratio	1.01	1.03	1.23	2.16	1.03	0.99
Debt/Capital	37.11%	21.41%	42.57%	21.41%	12.52%	24.50%
Net Margin	18.15%	29.52%	11.69%	14.99%	43.48%	29.52%
Return on Equity	15.16%	15.96%	16.66%	15.96%	9.22%	12.77%
Sales/Assets	0.31	0.31	0.54	0.48	0.07	0.07
Proj. Sales Growth (F1/F0)	4.60%	5.62%	3.94%	5.45%	5.62%	6.61%
Momentum Score	B	-	-	A	B	A
Daily Price Chg	5.72%	4.49%	3.75%	1.18%	3.50%	5.51%
1 Week Price Chg	-10.97%	-5.84%	-12.06%	-7.02%	-4.79%	-5.84%
4 Week Price Chg	-0.09%	2.72%	-7.42%	-4.19%	4.78%	7.85%
12 Week Price Chg	12.01%	8.51%	-4.61%	2.50%	9.24%	8.51%
52 Week Price Chg	32.74%	32.74%	7.38%	25.09%	28.34%	33.76%
20 Day Average Volume	1,018,447	887,934	2,456,671	887,934	2,258,733	5,253,489
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.12%	0.19%	0.00%
(F1) EPS Est 4 week change	0.53%	0.02%	-0.06%	-0.49%	0.02%	0.41%
(F1) EPS Est 12 week change	0.72%	-1.05%	-0.41%	-2.84%	-1.06%	-0.90%
(Q1) EPS Est Mthly Chg	0.77%	0.89%	-0.27%	0.17%	2.03%	1.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	B
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

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