

Nasdaq, Inc. (NDAQ)

\$107.86 (As of 01/15/20)

Price Target (6-12 Months): **\$113.00**

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

Shares of Nasdaq have outperformed the industry in a year's time. The company 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. Nasdaq has acquired Center for Board Excellence to extend its reach within the boardroom. A strong balance sheet helps it to invest in growth opportunities and engage in shareholder-friendly moves. However, elevated expenses due to compensation and benefits, merger and strategic initiatives, general, administrative and other expenses weigh on margin expansion. Also, high debt level raised interest expenses. Leverage and interest coverage ratio compare unfavorably with the industry.

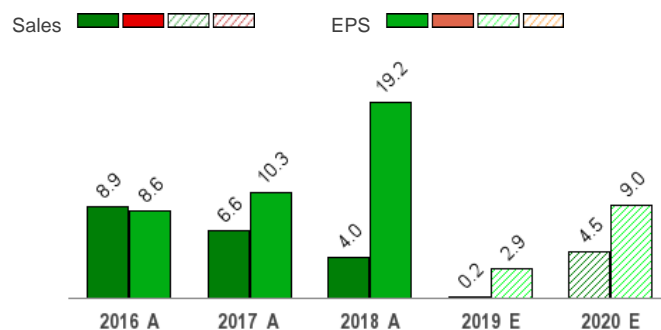
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$108.48 - \$81.01
20 Day Average Volume (sh)	516,883
Market Cap	\$17.8 B
YTD Price Change	0.7%
Beta	0.65
Dividend / Div Yld	\$1.88 / 1.7%
Industry	Securities and Exchanges
Zacks Industry Rank	Bottom 11% (227 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	5.0%
Last Sales Surprise	0.4%
EPS F1 Est- 4 week change	0.3%
Expected Report Date	01/29/2020
Earnings ESP	0.0%
P/E TTM	21.7
P/E F1	19.9
PEG F1	2.7
P/S TTM	4.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	649 E	653 E	665 E	674 E	2,645 E
2019	634 A	623 A	632 A	642 E	2,531 E
2018	666 A	615 A	600 A	645 A	2,526 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.29 E	\$1.33 E	\$1.39 E	\$1.41 E	\$5.43 E
2019	\$1.22 A	\$1.22 A	\$1.27 A	\$1.27 E	\$4.98 E
2018	\$1.24 A	\$1.18 A	\$1.15 A	\$1.26 A	\$4.84 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/15/2020. The reports text is as of 01/16/2020.

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.

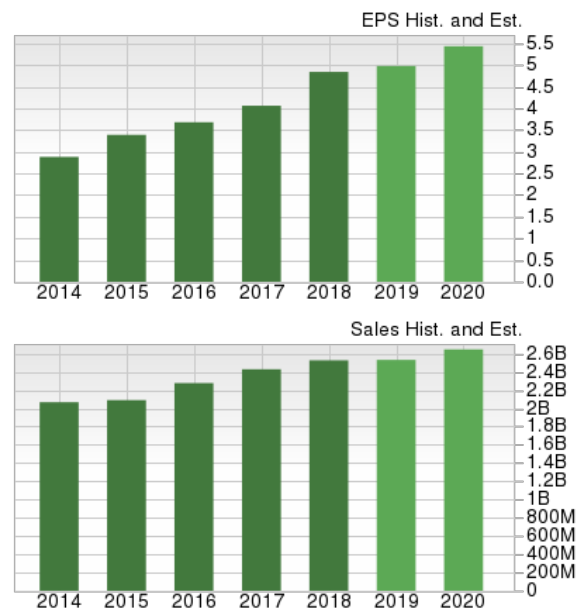
Market Services (37.9% of 2018 Revenues): The segment includes Equity Derivative Trading and Clearing, Cash Equity Trading, FICC and Trade Management Services businesses.

Information Services (28.3%): The segment's businesses include Market Data, Index and Investment Data & Analytics.

Corporate Services (20.9%): 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 (10.7%): 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 (2.2%) 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 gained 30% in the past year, outperforming the industry's increase of 23.8%. 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. Recently, Nasdaq has acquired Center for Board Excellence (CBE) to extend its reach within the boardroom by providing technology solutions. The addition of CBE hence should complement Nasdaq Governance Solutions operations.
- ▲ 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 deploys 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 injecting dynamism in its business profile. The company's organic growth in non-trading segments was 11% in the third quarter 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 raised dividend at a three-year CAGR of 13%. Its dividend yield of 1.7% better the industry average of 1.3%, 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. The company met its target of lowering gross leverage to the mid-2s by mid-2019.

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 increased 14% over the last five years, inducing 460 bps contraction in net margin. However, the first half of 2019 witnessed 1.2% decline in adjusted operating expenses. Nonetheless, to account for strong organic growth, Nasdaq expects non-GAAP operating expenses in 2019 in the range of 1.285 billion to \$1.295 billion (down from \$1.295 billion to \$1.320 billion).
- ▼ Nasdaq's debt has been increasing over the last few years. However, debt decreased 9.2% at third-quarter end from 2018 level. Leverage ratio (Debt to Capital) of 38% compared unfavorably with the industry average of 22.1%. Also, interest coverage ratio, a measure of a company's ability to meet its interest payments, is 9.2, comparing unfavorably with the industry average of 11.6. The company's high indebtedness and low interest coverage ratio raises 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 Beats on Q3 Earnings, Lowers Expense View

Nasdaq reported third-quarter 2019 adjusted earnings per share of \$1.27, beating the Zacks Consensus Estimate of \$1.21 by nearly 5%. The bottom line increased 10.4% 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 **09/2019**

Report Date	Oct 23, 2019
Sales Surprise	0.38%
EPS Surprise	4.96%
Quarterly EPS	1.27
Annual EPS (TTM)	4.97

Performance in Detail

Nasdaq's revenues of \$632 million increased 5.3% year over year. The upside was primarily attributable to organic growth and a positive \$12 million impact from the addition of revenues from the acquisitions of Cinnober and Quandl. However, a \$10 million negative impact from a divestiture and a \$7 million unfavorable impact from changes in foreign exchange rates were partial offsets. Organic revenues grew 6%. The top line beat the Zacks Consensus Estimate by 0.4%. Adjusted operating expenses were \$317 million, up 2% from the year-ago period owing to organic expense increase and a \$1 million increase from the net impact of acquisitions and divestitures, partially offset by a \$6 million favorable impact from changes in foreign exchange rates.

Operating margin of 50% expanded 200 basis points year over year. In the U.S. market, Nasdaq welcomed 66 new listings, including 41 IPOs. Nasdaq's European exchanges added eight new listings, including four IPOs, taking the Nordic and Baltic listed companies tally to 1,028 as on Sep 30, 2019, an increase of 2% year over year.

Segment Details

Net revenues at **Market Services** were up 2% from the year-ago quarter to \$226 million. This upside was largely driven by higher revenues from equity derivative trading and clearing.

Revenues at **Corporate Services** increased 2% year over year to \$124 million, driven by higher listings services revenues as well as corporate solutions revenues.

Information Services revenues rose 11% year over year to \$198 million. Higher market data revenue, index revenues as well as investment data & analytics revenues drove the upside.

Revenues at **Market Technology** increased 24% year over year to \$79 million, largely riding on Cinnober acquisition and organic growth.

Financial Update

Nasdaq had cash and cash equivalents of \$333 million as of Sep 30, 2019, down 43.2% from 2018-end level. As of Sep 30, 2019, long-term debt decreased 0.6% from 2018-end level to \$3 billion.

Capital Deployment

The company paid out \$150 million in dividend and spent \$78 million in share buybacks during the third quarter. As of Sep 30, 2019, Nasdaq had \$132 million remaining under its share repurchase authorization. In October 2019, the board authorized an additional \$500 million under Nasdaq's existing share repurchase program, taking the total authorization to \$632 million as of Oct 22, 2019.

Dividend Update

The board of directors announced quarterly dividend of 47 cents per share. The dividend will be paid out on Dec 27, 2019 to shareholders of record as of Dec 13, 2019.

Guidance

Nasdaq expects 2019 non-GAAP operating expense in the range of \$1.285 billion to \$1.295 billion compared with \$1.295 billion to \$1.320 billion guided earlier. Non-GAAP tax rate is estimated to be in the range of 26% to 27% in 2019. In September 2019, Nasdaq initiated the transition of certain technology platforms to advance the company's strategic opportunities as a technology and analytics provider and continue the re-alignment of certain business areas. As such, Nasdaq expects to incur \$65 million to \$75 million in pre-tax charges over a two-year period (including \$30 million in the third quarter of 2019) related primarily to non-cash items such as asset write-downs, accelerated depreciation as well as third-party consulting costs.

Recent News

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.

Nasdaq Launches AI to Strengthen Security – Nov 7, 2019

Nasdaq announced the launch of AI for the purpose of surveillance on the Nasdaq Stock Market. The company's U.S. market surveillance unit and Nasdaq's Market Technology business collaborated to create the AI in order to enable market surveillance and detect malicious activity.

Nasdaq Declares Quarterly Dividend — Oct 23, 2019

Nasdaq's board of directors recently declared a regular quarterly dividend of 47 cents per share. The dividend will be paid out on Dec 27 to shareholders of record as of Dec 13.

Valuation

Nasdaq shares have gained 30% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Finance sector are up 23.8% and 12.5%, respectively.

The S&P 500 index is up 24.8% in the past year.

The stock is currently trading at 19.79X forward 12-month price to earnings ratio, which compares to 26.01X for the Zacks sub-industry, 14.79X for the Zacks sector and 18.97X for the S&P 500 index.

Over the past five years, the stock has traded as high as 21.70X and as low as 13.73X, with a 5-year median of 16.66X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$113 price target reflects 20.73X forward 12-month price to earnings.

The table below shows summary valuation data for NDAQ

Valuation Multiples - NDAQ					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.79	26.01	14.79	18.97
	5-Year High	21.70	27.47	16.21	19.34
	5-Year Low	13.73	18.49	12.01	15.17
	5-Year Median	16.66	21.59	13.98	17.44
P/S F12M	Current	6.71	12.33	6.53	3.53
	5-Year High	7.01	12.94	6.61	3.53
	5-Year Low	3.48	7.27	5.2	2.54
	5-Year Median	4.87	9.62	6.04	3
P/B TTM	Current	3.34	3.3	2.83	4.5
	5-Year High	3.35	3.48	2.89	4.5
	5-Year Low	1.30	1.72	1.83	2.85
	5-Year Median	2.17	2.52	2.5	3.61

As of 01/15/2020

Industry Analysis Zacks Industry Rank: Bottom 11% (227 out of 254)



Top Peers

Cboe Global Markets, Inc. (CBOE)	Neutral
CME Group Inc. (CME)	Neutral
Envestnet, Inc (ENV)	Neutral
Intercontinental Exchange Inc. (ICE)	Neutral
Moodys Corporation (MCO)	Neutral
MarketAxess Holdings Inc. (MKTX)	Neutral
MSCI Inc (MSCI)	Neutral
OTC Markets Group Inc. (OTCM)	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	-	-	D	F	F
Market Cap	17.76 B	17.76 B	24.22 B	12.95 B	73.47 B	53.33 B
# of Analysts	7	6	13	7	6	7
Dividend Yield	1.74%	1.23%	1.75%	1.23%	1.46%	1.15%
Value Score	D	-	-	F	F	D
Cash/Price	0.02	0.02	0.04	0.01	0.02	0.03
EV/EBITDA	14.53	17.12	14.11	16.78	23.88	17.47
PEG Ratio	2.68	2.69	2.06	4.02	3.49	2.69
Price/Book (P/B)	3.33	3.89	3.34	3.89	2.73	3.10
Price/Cash Flow (P/CF)	17.32	20.48	13.57	17.03	28.21	20.48
P/E (F1)	19.86	23.69	18.90	23.74	27.99	22.96
Price/Sales (P/S)	4.10	8.13	2.65	4.89	14.79	8.13
Earnings Yield	5.03%	4.21%	5.29%	4.21%	3.57%	4.35%
Debt/Equity	0.61	0.21	0.72	0.27	0.14	0.39
Cash Flow (\$/share)	6.23	5.21	6.94	6.86	7.27	4.68
Growth Score	D	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	12.29%	14.53%	10.56%	22.02%	16.70%	14.53%
Proj. EPS Growth (F1/F0)	9.13%	9.13%	7.59%	6.03%	7.72%	7.47%
Curr. Cash Flow Growth	16.55%	16.86%	14.73%	36.56%	41.54%	16.44%
Hist. Cash Flow Growth (3-5 yrs)	12.48%	17.35%	9.00%	29.42%	15.56%	27.35%
Current Ratio	0.95	1.03	1.24	2.46	1.04	1.00
Debt/Capital	38.01%	17.09%	42.99%	21.55%	12.62%	28.51%
Net Margin	12.16%	29.06%	11.14%	16.08%	40.93%	31.97%
Return on Equity	15.22%	17.21%	17.16%	17.21%	9.54%	12.79%
Sales/Assets	0.30	0.30	0.55	0.51	0.07	0.07
Proj. Sales Growth (F1/F0)	4.54%	6.04%	4.23%	5.70%	4.47%	6.04%
Momentum Score	B	-	-	F	F	F
Daily Price Chg	1.23%	0.71%	0.27%	1.19%	0.71%	2.13%
1 Week Price Chg	-1.33%	-1.33%	0.39%	-4.52%	0.26%	-0.44%
4 Week Price Chg	1.83%	1.83%	2.17%	0.38%	2.25%	4.26%
12 Week Price Chg	6.47%	3.06%	6.65%	2.49%	1.37%	3.06%
52 Week Price Chg	30.01%	26.24%	22.43%	25.71%	12.46%	28.53%
20 Day Average Volume	516,883	516,883	1,545,017	577,451	1,221,503	2,174,639
(F1) EPS Est 1 week change	0.18%	-0.02%	0.00%	-0.98%	-0.05%	-0.95%
(F1) EPS Est 4 week change	0.33%	-1.13%	0.00%	-1.87%	-0.99%	-1.23%
(F1) EPS Est 12 week change	1.09%	-1.56%	-0.41%	-3.77%	-2.09%	-1.46%
(Q1) EPS Est Mthly Chg	0.41%	-0.43%	0.00%	-2.86%	-1.45%	0.72%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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.

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