

Nasdaq, Inc. (NDAQ)

\$131.30 (As of 07/20/20)

Price Target (6-12 Months): **\$138.00**

Long Term: 6-12 Months

Zacks Recommendation:
Neutral

(Since: 05/03/20)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: D

Growth: C

Momentum: A

Summary

Shares of Nasdaq have outperformed the industry year to date. 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. Its 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 and robust cash position help capitalize on growth opportunities through investments. Nasdaq remains committed to deploy capital effectively by investing in organic growth initiatives. However, high costs put a strain on margin. Also, the company's high debt level and low interest coverage pose risk.

Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$131.67 - \$71.66
20 Day Average Volume (sh)	588,633
Market Cap	\$21.5 B
YTD Price Change	22.6%
Beta	0.74
Dividend / Div Yld	\$1.96 / 1.5%
Industry	Securities and Exchanges
Zacks Industry Rank	Bottom 29% (178 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.5%
Last Sales Surprise	1.2%
EPS F1 Est- 4 week change	1.4%
Expected Report Date	07/22/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	680 E	696 E	695 E	705 E	2,782 E
2020	701 A	687 E	666 E	669 E	2,723 E
2019	634 A	623 A	632 A	644 A	2,535 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.40 E	\$1.47 E	\$1.46 E	\$1.48 E	\$5.82 E
2020	\$1.50 A	\$1.45 E	\$1.37 E	\$1.39 E	\$5.68 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	24.9
P/E F1	23.1
PEG F1	3.1
P/S TTM	4.7

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 07/20/2020. The reports text is as of 07/21/2020.

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.

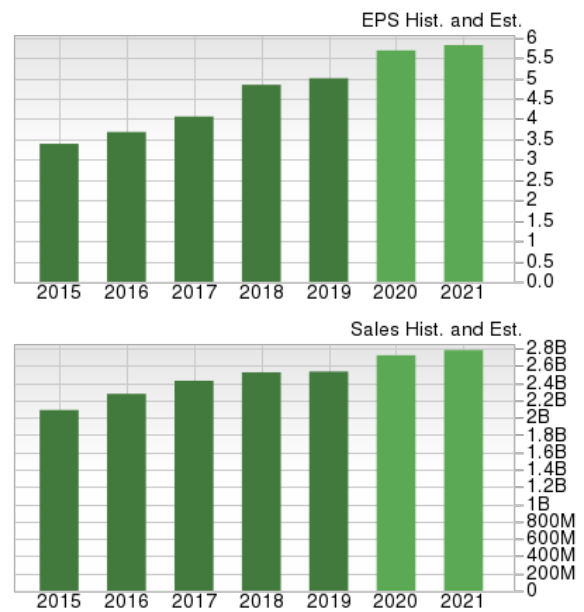
Market Services (36% of 2019 Revenues): The segment includes Equity Derivative Trading and Clearing, Cash Equity Trading, FICC and Trade Management Services businesses.

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 gained 21.2% year to date, against the industry's decline of 0.3%. Solid fundamentals should help the stock retain the momentum.
 - ▲ 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. Recently, the Market Technology business of Nasdaq has inked a partnership deal with Caspian to boost business growth in financial crime market vertical. Nasdaq made this investment in Caspian in a bid to enhance the transparency of markets and to boost its efforts to fight financial crimes in the financial services industry. Further, 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. In the first quarter of 2020, revenues in the non-trading segments increased 7% from the year ago period, primarily due to organic growth.
- ▲ 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 4% hike in April 2020, the company's dividend payout saw a five-year CAGR (2014-2019) of 29.31%. Its dividend yield of 1.6% better the industry average of 1.5%, 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.
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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. In the first quarter of 2020, adjusted operating expenses increased 4.3% from the year-ago period to \$336 million due to an increase in organic expense. Nonetheless, to account for strong organic growth, Nasdaq expects 2020 non-GAAP operating expense in the range of \$1.32 to \$1.37 billion million compared with \$1.29 to \$1.33 billion guided earlier. The revised guidance takes into account acquisitions of Solovis and OneReport during the first quarter of 2020.
- ▼ Nasdaq's debt has been increasing over the last few years. Leverage ratio (Debt to Capital) of 37.7 compared unfavorably with the industry average of 19.7. Also, times interest earned, a measure of a company's ability to meet its interest payments, is 9.7x, comparing unfavorably with the industry average of 12.5x. 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 Q1 Earnings and Revenue Estimates

Nasdaq, Inc. reported first-quarter 2020 adjusted earnings per share of \$1.50, which beat the Zacks Consensus Estimate by 3.4%. The bottom line increased 22.9% year over year.

Earnings benefited from growth in non-trading revenues. Strategic acquisitions contributed to revenues in the quarter.

Performance in Detail

Nasdaq's revenues of \$701 million increased 11% year over year. The upside was primarily due to the \$51 million positive impact from organic growth in the Market Services segment, a \$30 million positive impact from organic growth in the non-trading segments and a \$2 million increase from the inclusion of revenues from acquisitions, partially offset by a \$10 million negative impact from divestitures and a \$6 million unfavorable impact from changes in exchange rates. The top line beat the Zacks Consensus Estimate of \$684 million by 2.5%.

Adjusted operating expenses were \$336 million in the reported quarter, up 4.3% from the year-ago period owing to an increase of \$23 million in organic expense, partially offset by a \$5 million decline from the net impact of acquisitions and a divestiture, and a \$4 million favorable impact from changes in foreign exchange rates.

Notably, there were 4,185 listed companies on Nasdaq in the first quarter of 2020 compared with 4,077 in the year-ago period. Total listings grew 2.6% year over year to 4,180.

Operating margin of 52% expanded 300 basis points year over year.

Segment Details

Net revenues at **Market Services** were up 20.6% from the year-ago quarter to \$281 million. This upside was due to higher revenues from equity derivative trading and clearing services and cash equity trading services.

Revenues at **Corporate Services** increased 5.8% year over year to \$128 million, mainly on the back of higher revenues from Listings Services and Corporate Solutions services.

Information Services revenues rose 9.3% year over year to \$211 million. Higher Market Data revenues, Index revenues and Investment Data & Analytics revenues drove the upside.

Revenues at **Market Technology** increased 5.2% year over year to \$81 million, riding on higher revenues from SaaS surveillance and an increase in software delivery and support projects, partially offset by a decrease in change request revenues and an unfavorable impact from foreign exchange of \$2 million.

Financial Update

Nasdaq had cash and cash equivalents of \$1015 million as of Mar 31, 2020, up 205.7% from 2018-end level. As of Mar 31, 2020, long-term debt reduced 1.1% from 2019-end level to \$2.9 billion.

Capital Deployment

The board of directors approved a 4% hike in regular quarterly dividend to 49 cents. This was in line with the company's policy of hiking dividend over the long term as earnings and cash flow increase.

As of Mar 31, 2020, Nasdaq had \$510 million remaining under its share repurchase authorization.

Guidance

Nasdaq expects 2020 non-GAAP operating expense in the range of \$1.32 to \$1.37 billion compared with \$1.29 to \$1.33 billion guided earlier. The revised guidance takes into account acquisitions of Solovis and OneReport during the first quarter of 2020.

Non-GAAP tax rate is estimated to be in the range of 25.5% to 27.5% in 2020 compared with the prior guidance of 26% to 27%.

Quarter Ending **03/2020**

Report Date	Apr 22, 2020
Sales Surprise	1.16%
EPS Surprise	3.45%
Quarterly EPS	1.50
Annual EPS (TTM)	5.28

Recent News

Nasdaq's Volumes Mixed in Q2, Increase in June - Jul 9, 2020

Nasdaq reported mixed volumes for second-quarter 2020. While U.S. equity options volume increased 45.7% year over year to 612 million contracts, European options and futures volume declined 22.5% year over year to 17.6 million contracts.

Though revenues per contract for U.S. equity options decreased 20% to 12 cents, the same for European options and futures increased 10% to 44 cents.

In Cash Equities, Nasdaq's U.S. matched equity volume in the second quarter grossed 142.6 billion shares, up 62.7% from the prior-year quarter. European equity volume improved nearly 33.9% year over year to \$253 billion.

Under Fixed Income and Commodities, U.S. Fixed income volume in the second quarter declined 57.3% to \$1.2 trillion. European fixed income volume decreased 5.3% to 7.1 million contracts.

Notably, there were 3,788 listed companies on Nasdaq in the second quarter of 2020 compared with 3,735 in the year-ago period. Total listings grew 2.2% year over year to 4,198.

Notably, Nasdaq reported impressive volumes for the month of June. While U.S. equity options volume increased 74.2% year over year to 230 million contracts, European options and futures volume rose 4.8% year over year to 6.6 million contracts.

Nasdaq Partners With LEX, Offers its SaaS Platform - Jun 25, 2020

Nasdaq has teamed up with LEX Markets Corp. to boost the trading platform of Lex and enable people to trade commercial real estate securities.

Nasdaq Unveils SaaS Platform, Partners With Microsoft - Jun 24, 2020

Nasdaq has unveiled an end-to-end SaaS platform known as Marketplace Services Platform in a bid to ease the exchange of assets, services and information across market ecosystems.

Valuation

Nasdaq's shares are up 21.2% and 27.6% 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 down 0.3% and 20.3% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry are 0.00% but down 16%.

The S&P 500 index is down 1.7% in the year-to-date period and up 5.4% in the past year.

The stock is currently trading at 22.81x forward 12-month earnings, which compares to 24.36x for the Zacks sub-industry, 16.34x for the Zacks sector and 23.02x for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.81x and as low as 13.03x, with a 5-year median of 16.99x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$138 price target reflects 24.21x forward earnings.

The table below shows summary valuation data for NDAQ

Valuation Multiples - NDAQ					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	22.81	24.36	16.34	23.02
	5-Year High	22.81	27.47	16.34	23.02
	5-Year Low	13.03	18.49	11.59	15.25
	5-Year Median	16.99	22.14	14.16	17.52
P/S F12M	Current	7.82	11.54	6.04	3.61
	5-Year High	7.82	12.94	6.66	3.61
	5-Year Low	3.86	7.27	4.96	2.53
	5-Year Median	5.14	10.28	6.06	3.02
P/B TTM	Current	3.99	3.21	2.3	4.32
	5-Year High	3.99	3.54	2.87	4.56
	5-Year Low	1.45	1.81	1.71	3.03
	5-Year Median	2.28	2.69	2.64	4.11

As of 07/20/2020

Industry Analysis Zacks Industry Rank: Bottom 29% (178 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Envestnet, Inc. (ENV)	Outperform	1
MarketAxess Holdings Inc. (MKT)	Outperform	1
Cboe Global Markets, Inc. (CBOE)	Neutral	3
CME Group Inc. (CME)	Neutral	4
Intercontinental Exchange Inc. (ICE)	Neutral	3
Moodys Corporation (MCO)	Neutral	3
MSCI Inc (MSCI)	Neutral	2
OTC Markets Group Inc. (OTCM)	Underperform	5

Industry Comparison Industry: Securities And Exchanges				Industry Peers		
	NDAQ	X Industry	S&P 500	CBOE	CME	ICE
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	C	-	-	C	F	D
Market Cap	21.54 B	21.54 B	22.29 B	10.24 B	60.21 B	51.58 B
# of Analysts	7	7	14	7	7	7
Dividend Yield	1.49%	1.49%	1.85%	1.54%	2.03%	1.27%
Value Score	D	-	-	D	F	D
Cash/Price	0.06	0.03	0.06	0.02	0.02	0.03
EV/EBITDA	17.64	16.92	13.06	15.18	18.80	16.20
PEG Ratio	3.11	3.18	2.98	5.52	4.99	2.64
Price/Book (P/B)	3.99	3.99	3.12	3.09	2.26	3.04
Price/Cash Flow (P/CF)	21.10	20.64	12.03	14.40	20.64	18.38
P/E (F1)	23.08	23.10	22.15	17.71	23.08	21.32
Price/Sales (P/S)	4.71	7.29	2.35	3.64	11.55	7.29
Earnings Yield	4.33%	4.33%	4.30%	5.65%	4.33%	4.69%
Debt/Equity	0.61	0.22	0.75	0.30	0.13	0.33
Cash Flow (\$/share)	6.22	6.22	6.94	6.48	8.13	5.13
Growth Score	C	-	-	B	C	C
Hist. EPS Growth (3-5 yrs)	11.36%	15.03%	10.82%	22.89%	16.67%	13.38%
Proj. EPS Growth (F1/F0)	13.69%	13.48%	-9.08%	11.39%	6.97%	13.92%
Curr. Cash Flow Growth	0.39%	5.26%	5.51%	-6.75%	12.13%	7.25%
Hist. Cash Flow Growth (3-5 yrs)	10.02%	18.37%	8.55%	25.08%	16.24%	15.62%
Current Ratio	0.97	1.02	1.30	1.77	1.01	0.99
Debt/Capital	37.74%	17.44%	44.41%	23.14%	11.74%	24.89%
Net Margin	15.94%	29.65%	10.54%	15.49%	45.79%	29.65%
Return on Equity	16.08%	17.64%	15.74%	17.64%	10.15%	13.85%
Sales/Assets	0.33	0.33	0.54	0.55	0.06	0.07
Proj. Sales Growth (F1/F0)	7.51%	7.51%	-2.36%	10.83%	5.80%	9.49%
Momentum Score	A	-	-	D	F	F
Daily Price Chg	2.23%	0.71%	-0.77%	0.71%	0.77%	0.45%
1 Week Price Chg	4.52%	1.21%	3.82%	1.21%	1.23%	1.38%
4 Week Price Chg	9.68%	-0.06%	2.71%	-6.73%	-4.11%	-0.06%
12 Week Price Chg	17.62%	10.97%	9.79%	-3.93%	-10.57%	2.06%
52 Week Price Chg	29.00%	3.90%	-3.79%	-18.51%	-18.55%	3.90%
20 Day Average Volume	588,633	588,633	2,095,914	741,966	1,866,881	2,447,957
(F1) EPS Est 1 week change	-0.23%	0.00%	0.00%	0.00%	0.00%	-0.58%
(F1) EPS Est 4 week change	1.38%	0.00%	0.09%	-0.38%	-4.12%	-1.90%
(F1) EPS Est 12 week change	1.79%	0.49%	-4.60%	0.49%	-6.36%	0.03%
(Q1) EPS Est Mthly Chg	1.23%	0.00%	0.00%	-3.68%	-8.23%	-2.39%

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	C
Momentum Score	A
VGM Score	C

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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ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

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