

Nasdaq, Inc. (NDAQ)

\$132.54 (As of 08/26/20)

Price Target (6-12 Months): **\$139.00**

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:D

Value: D

Growth: B

Momentum: F

Summary

Nasdaq has been successful in maximizing opportunities as a technology and analytics provider and growing core marketplace businesses. Focus on growth via acquisitions and organic initiatives, which aided its entry into new markets and helped it gain cross-selling opportunities, bodes well. Intense focus on Market Technology and Information Services businesses also helps it to explore vast opportunities per its developmental strategies. A strong balance sheet and robust cash position help capitalize on growth opportunities through investments. It remains committed to deploy capital effectively by investing in organic growth initiatives. Shares of Nasdaq have outperformed the industry year to date. However, escalating expenses due to general and administrative costs weigh on margin expansion. Also, high debt level and low interest coverage pose risk.

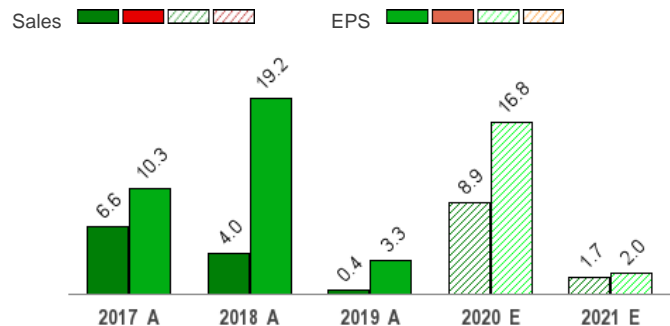
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$137.50 - \$71.66
20 Day Average Volume (sh)	643,187
Market Cap	\$21.8 B
YTD Price Change	23.8%
Beta	0.76
Dividend / Div Yld	\$1.96 / 1.5%
Industry	Securities and Exchanges
Zacks Industry Rank	Bottom 13% (218 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	6.2%
Last Sales Surprise	1.8%
EPS F1 Est- 4 week change	-0.3%
Expected Report Date	10/28/2020
Earnings ESP	-0.2%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	682 E	700 E	702 E	709 E	2,808 E
2020	701 A	699 A	681 E	679 E	2,761 E
2019	634 A	623 A	632 A	644 A	2,535 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.41 E	\$1.47 E	\$1.48 E	\$1.50 E	\$5.96 E
2020	\$1.50 A	\$1.54 A	\$1.40 E	\$1.41 E	\$5.84 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	23.7
P/E F1	22.7
PEG F1	3.1
P/S TTM	4.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/26/2020. The reports text is as of 08/27/2020.

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.

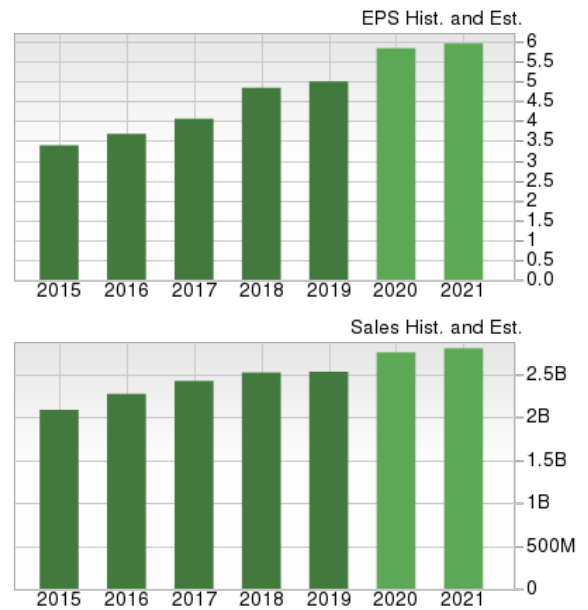
Market Services (36% of 2019 Revenues): The segment includes Equity Derivative Trading and Clearing, Cash Equity Trading, FICC and Trade Management Services businesses.

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 23.7% year to date outperforming the industry's increase of 4.6%. 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.
- ▲ 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. Divestment of Public Relations Solutions and Digital Media Services businesses in April 2018 and BWISE in April 2019 helped the company 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.. 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. In the second quarter, it launched Nasdaq's marketplace services platform to provide Market Technology clients with seamless access to standard cloud-based infrastructure component.
- ▲ 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 second quarter of 2020, revenues in the non-trading segments increased 7% from the year-ago period, primarily due to organic growth. The company estimates to achieve the low end of its long-term outlook in 2020.
- ▲ Nasdaq boasts a healthy balance sheet and cash position along with modest operating cash flow from its diverse business model. While the company increased cash reserves and sought to eliminate near-term maturities, it issued a \$500 million 30-year bond and repaid all commercial paper and borrowings under its revolver. This helped to lower leverage while improving its available liquidity.
- ▲ 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 increased at a five-year CAGR (2016-2020) of 13.5%. Its dividend yield of 1.5% is almost in line with the industry average of 1.4%. The company also has \$480 million remaining under its share repurchase authorization as of Jun 30, 2020.

Nasdaq remains committed to deploy capital effectively by de-leveraging, investing in organic growth initiatives, pursuing strategic acquisitions, increasing dividend and engaging in buybacks.

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. In the first quarter of 2020, adjusted operating expenses increased 4.3% and by another 5% in the second quarter of 2020 attributable due to an increase in organic expense. Nonetheless, Nasdaq tightened 2020 non-GAAP operating expense guidance to a range of \$1.33 billion to \$1.36 billion from \$1.32 billion to \$1.37 billion guided earlier. This reflects lower corporate travel, lower event spending and delays in hiring, partially offset by unfavorable changes in foreign exchange rates.
- ▼ Nasdaq's debt has been increasing over the last few years. Leverage ratio (Debt to Capital) of 60.6 compared unfavorably with the industry average of 24.5. Also, times interest earned, a measure of a company's ability to meet its interest payments, is 10.8X, comparing unfavorably with the industry average of 12.4X. 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 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 Q2 Earnings, Narrows Expense Guidance

Nasdaq reported second-quarter 2020 adjusted earnings per share of \$1.54, which beat the Zacks Consensus Estimate of \$1.45 by 6.2%. The bottom line increased 26.2% year over year.

The company witnessed growth in Market Services segment and non-trading revenues. Strategic acquisitions contributed to revenues in the quarter.

Quarter Ending **06/2020**

Report Date	Jul 22, 2020
Sales Surprise	1.78%
EPS Surprise	6.21%
Quarterly EPS	1.54
Annual EPS (TTM)	5.60

Performance in Detail

Nasdaq's revenues of \$699 million increased 12% year over year. The upside was primarily attributable to a \$50 million positive impact from organic growth in the Market Services segment, a \$25 million positive impact from organic growth in the non-trading segments and a \$3 million increase from the inclusion of revenues from acquisitions. The top line beat the Zacks Consensus Estimate by 1.8%.

Adjusted operating expenses were \$327 million in the reported quarter, up 2% from the year-ago period owing to \$7 million increase from the impact of acquisitions as well as higher compensation expense. However, lower general, administrative and other costs, decreased marketing and advertising expense and a favorable impact from foreign exchange of \$2 million were partial offsets.

Operating margin of 53% expanded 500 basis points year over year.

In the U.S. market, Nasdaq welcomed 55 new listings, including 42 IPOs. Nasdaq's Nordic and Baltic exchanges and Nasdaq First North added 13 new listings, including 9 IPOs.

Segment Details

Net revenues at **Market Services** were up 22% from the year-ago quarter to \$276 million. This upside was due to higher revenues from cash equity trading.

Revenues at **Corporate Services** increased 2% year over year to \$126 million, driven by higher corporate solutions revenues.

Information Services revenues rose 10% year over year to \$213 million. Higher market data revenues, index revenues as well as investment data & analytics revenues drove the upside.

Revenues at **Market Technology** increased 6% year over year to \$84 million, driven by higher SaaS surveillance revenues.

Financial Update

Nasdaq had cash and cash equivalents of \$711 million as of Jun 30, 2020, up 114.2% from the 2019-end level. As of Jun 30, 2020, long-term debt increased 16.2% from 2019-end level to \$3.4 billion.

During the reported quarter, Nasdaq issued a \$500 million 30-year bond and repaid all commercial paper and borrowings under its revolver. This helped to lower leverage while improving its available liquidity.

As of Jun 30, 2020, Nasdaq had \$480 million remaining under its share repurchase authorization.

Guidance Narrowed

Nasdaq expects 2020 non-GAAP operating expense in the range of \$1.33 billion to \$1.36 billion, compared with \$1.32 billion to \$1.37 billion guided earlier. This reflects lower corporate travel, lower event spending and delays in hiring, partially offset by unfavorable changes in foreign exchange rates

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

Dividend Update

The board of directors announced quarterly dividend of 49 cents per share. The dividend will be paid out on Sep 25 to shareholders of record as of Sep 11, 2020.

Recent News

Nasdaq & CME Group Partner to Launch Futures on VOLQ - Aug 13, 2020

Nasdaq partnered with CME Group Inc. to unveil a new futures contract on the Nasdaq-100 Volatility Index. The contract will be cash-settled based on the VOLQ Index. With the launch of VOLQ futures, increasing demand for tools to hedge portfolio volatility exposure will be fulfilled immediately. Further, it will enhance and augment the highly liquid Nasdaq futures and options product line, which also includes the E-mini and Micro E-mini Nasdaq-100 contracts.

Nasdaq Inks a Deal With Dubai Gold & Commodities Exchange – Aug 10, 2020

Nasdaq and Dubai Gold & Commodities Exchange entered into a major market technology agreement per which Nasdaq is required to offer DGCX with its full suite of integrated marketplace solutions. This partnership will enable DGCX to offer services to other market infrastructure providers and provide it with high-velocity multi-asset class clearing, settlement and risk management capabilities.

Nasdaq's Volumes in July Increase Year Over Year – Aug 4, 2020

Nasdaq reported volumes for the month of July. While U.S. equity options volume increased 52.4% year over year to 218 million contracts, European options and futures volume decreased 32% year over year to 5.1 million contracts.

Under its Cash Equities, Nasdaq's U.S. matched equity volume in the month grossed 44.5 billion shares, up 58.5% year over year. European equity volume improved nearly 27.7% year over year to \$80.2 billion. Under its Fixed Income and Commodities, U.S. Fixed income volume in March declined 62.9% to \$327 billion. European fixed income volume decreased 26.7% to 1.1 million contracts.

Valuation

Nasdaq's shares are up 23.7% and 34.5% 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 4.6% but down 15.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry are up 1.3% but down 5.3%.

The S&P 500 index is up 8.1% in the year-to-date period and 20.9% in the past year.

The stock is currently trading at 22.40x forward 12-month earnings, which compares to 25.7x for the Zacks sub-industry, 16.65x for the Zacks sector and 23.37x for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.29x and as low as 13.03x, with a 5-year median of 17.05x. Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$139 price target reflects 23.5x 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	22.40	25.7	16.65	23.37
	5-Year High	23.29	27.47	16.65	23.37
	5-Year Low	13.03	18.49	11.6	15.25
	5-Year Median	17.05	22.17	14.26	17.58
P/S F12M	Current	7.81	12.14	6.23	3.81
	5-Year High	7.98	12.94	6.67	3.81
	5-Year Low	3.95	7.27	4.97	2.53
	5-Year Median	5.19	10.43	6.06	3.05
P/B TTM	Current	3.78	3.32	2.52	4.71
	5-Year High	3.83	3.54	2.91	4.71
	5-Year Low	1.48	1.82	1.72	2.83
	5-Year Median	2.30	2.71	2.53	3.76

As of 08/26/2020

Industry Analysis Zacks Industry Rank: Bottom 13% (218 out of 252)



Top Peers

Company (Ticker)	Rec	Rank
Envestnet, Inc. (ENV)	Outperform	1
MarketAxess Holdings Inc. (MKTX)	Outperform	2
Cboe Global Markets, Inc. (CBOE)	Neutral	4
Intercontinental Exchange Inc. (ICE)	Neutral	4
Moodys Corporation (MCO)	Neutral	3
MSCI Inc (MSCI)	Neutral	3
OTC Markets Group Inc. (OTCM)	Neutral	2
CME Group Inc. (CME)	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	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	4	5	4
VGM Score	D	-	-	B	F	D
Market Cap	21.77 B	21.77 B	23.69 B	9.92 B	62.70 B	57.04 B
# of Analysts	7	7	14	7	7	7
Dividend Yield	1.48%	1.48%	1.65%	1.58%	1.94%	1.14%
Value Score	D	-	-	D	F	D
Cash/Price	0.04	0.04	0.07	0.04	0.02	0.03
EV/EBITDA	18.54	18.48	13.37	14.51	19.35	18.42
PEG Ratio	3.07	2.81	3.04	6.26	5.74	2.81
Price/Book (P/B)	3.78	3.78	3.17	3.02	2.34	3.36
Price/Cash Flow (P/CF)	21.30	21.30	12.78	14.08	21.55	20.47
P/E (F1)	22.77	23.93	21.63	17.54	24.80	23.93
Price/Sales (P/S)	4.43	7.70	2.50	3.24	12.24	7.70
Earnings Yield	4.41%	4.18%	4.44%	5.70%	4.03%	4.18%
Debt/Equity	0.67	0.22	0.75	0.31	0.13	0.47
Cash Flow (\$/share)	6.22	6.22	6.94	6.48	8.13	5.13
Growth Score	B	-	-	A	D	C
Hist. EPS Growth (3-5 yrs)	11.28%	14.94%	10.41%	23.03%	16.63%	13.26%
Proj. EPS Growth (F1/F0)	16.74%	12.03%	-4.92%	9.97%	3.91%	13.07%
Curr. Cash Flow Growth	0.39%	5.26%	5.22%	-6.75%	12.13%	7.25%
Hist. Cash Flow Growth (3-5 yrs)	10.02%	18.37%	8.50%	25.08%	16.24%	15.62%
Current Ratio	1.11	1.07	1.34	1.57	1.02	1.01
Debt/Capital	40.29%	17.40%	44.18%	23.44%	11.36%	32.20%
Net Margin	16.21%	29.01%	10.25%	15.07%	46.39%	29.01%
Return on Equity	16.89%	18.23%	14.66%	18.23%	9.93%	14.18%
Sales/Assets	0.35	0.35	0.50	0.59	0.05	0.07
Proj. Sales Growth (F1/F0)	9.02%	8.84%	-1.45%	9.68%	3.66%	8.84%
Momentum Score	F	-	-	D	A	D
Daily Price Chg	1.88%	0.70%	-0.18%	0.70%	0.19%	0.54%
1 Week Price Chg	0.53%	0.67%	-1.45%	3.83%	1.41%	1.67%
4 Week Price Chg	1.17%	2.34%	2.10%	2.34%	6.30%	11.35%
12 Week Price Chg	11.06%	6.06%	3.61%	-12.28%	-5.91%	7.27%
52 Week Price Chg	34.52%	12.58%	3.61%	-23.95%	-18.77%	12.58%
20 Day Average Volume	643,187	643,187	1,883,291	850,265	1,577,029	3,378,135
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.34%	-0.74%	0.93%	-1.27%	-2.87%	-0.74%
(F1) EPS Est 12 week change	4.80%	0.69%	3.41%	-1.81%	-8.50%	-2.35%
(Q1) EPS Est Mthly Chg	-0.41%	-2.49%	0.00%	-5.44%	-7.29%	-2.43%

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	B
Momentum Score	F
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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