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NDAQ - Q2 2015 NASDAQ OMX Group Inc Earnings Call

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## OVERVIEW:

Co. reported 2Q15 reported net revenue of \$518m and non-GAAP net income of \$143m or \$0.83 per diluted share.



## CORPORATE PARTICIPANTS

**Bob Greifeld** *NASDAQ OMX Group, Inc. - CEO*

**Lee Shavel** *NASDAQ OMX Group, Inc. - CFO*

**Adena Friedman** *NASDAQ OMX Group, Inc. - Co-President*

**Hans-Ole Jochumsen** *NASDAQ OMX Group, Inc. - Co-President*

## CONFERENCE CALL PARTICIPANTS

**Ed Ditmire** *Macquarie Capital Securities - Analyst*

**Rich Repetto** *Sandler O'Neill & Partners - Analyst*

**Rob Rutschow** *CLSA - Analyst*

**Chris Allen** *Evercore ISI - Analyst*

**Ashley Serrao** *Credit Suisse - Analyst*

**Brian Bedell** *Deutsche Bank - Analyst*

**Kyle Voigt** *Keefe, Bruyette & Woods - Analyst*

**Chris Harris** *Wells Fargo Securities, LLC - Analyst*

**Michael Carrier** *BofA Merrill Lynch - Analyst*

**Ken Worthington** *JPMorgan - Analyst*

## PRESENTATION

### Operator

Good day, ladies and gentlemen, and welcome to the NASDAQ second-quarter 2015 earnings conference call.

(Operator Instructions)

As a reminder, this conference is being recorded.

I will now turn the call over to your host, Ed Ditmire, Vice President, Investor Relations. Please go ahead.

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### Ed Ditmire - *Macquarie Capital Securities - Analyst*

Good morning, everyone, and thanks for joining us today to discuss NASDAQ's second-quarter 2015 earnings results. On the line are Bob Greifeld, our CEO; Lee Shavel, our CFO; our Co-Presidents, Adena Friedman and Hans-Ole Jochumsen; Ed Knight, our General Counsel; and other members of the management team.

After prepared remarks, we will 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 would 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. 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 now will turn the call over to Bob.

**Bob Greifeld** - *NASDAQ OMX Group, Inc. - CEO*

Thank you, Ed, and good morning, everyone. Thank you for joining us today to discuss NASDAQ's second-quarter 2015 results.

We are very pleased with our performance in the second quarter, and with the continued strong momentum being generated across all our businesses. We again delivered record results for our shareholders in terms of non-GAAP operating profit, pre-tax income, net income and EPS. Non-GAAP revenue was \$518 million, with improving organic growth and a continuation of especially strong performance across our foundational businesses, listing services and cash equities.

In addition to our solid organic growth performance, we also maintained our focus on running this Business as effectively and efficiently as possible, which, as you've heard me say before, will always be a hallmark of this Organization. As such, we continued to see operating margins move in a positive direction, up year over year and remaining at multi-year highs. This is indeed encouraging and indicative of the team's focus and strong execution. Lee will go into greater detail on the numbers in a few minutes.

When I look across our Franchise today, there are a multitude of positive developments, including strong performance in our core business, marked progress with acquisitions, and a number of important product launches and initiatives we have in our pipeline. I would like to highlight a few areas where our intense customer focus continues to be the fuel that drives this Organization forward and enables us to consistently perform at a very high level. Let me provide you with a few examples.

One of the more important undertakings for NASDAQ and our customers is our new energies futures market: NASDAQ Futures Exchange, NFX. NFX will begin trading tomorrow. We started this based upon a strong dialogue with our customers, and our customers' desire for a more efficient and cost effective alternative. That has been the driving force behind the design and execution of our solution.

As a result of the work we have done, we have a broad coalition of partners who have become members and connected to the service, and includes 16 FCMs. We also have a large number of market makers, over a dozen. And we have a half dozen ISVs which will provide the front-end trading software support.

Because of our efficient model and our ability to lever our technology, pricing will be a clear differentiator. In some cases, we will be less than half of what our competitors charge.

Horizontal clearing will be the other key differentiator. We are partnering with OCC, and this will allow our customers to have greater control and choice in their clearing operations.

NFX is a clear continuation of our strategy to expand our capabilities in core businesses that do more for our customers and will drive new growth opportunities. I look forward to reporting to you more about the progress with NFX in the quarters to come.

Another good example of where our strong commitment to our clients has enabled us to drive new opportunities is NASDAQ Private Market. While we continue to experience one of the most robust IPO and listings environments in recent memory, and we are the leading venue for IPOs with a 70% win rate, we also, in addition, saw a continued strong progress in NASDAQ Private Market during the quarter. We added 25 companies to NPM in the second quarter, expanding the user base by a third.

NPM now has over 100 customers worldwide, including leading companies such as Pinterest, DocuSign, and Business Insider, to name a few. And it is still very early days. Through the NPM platform, we enable companies to meet the liquidity, capital table management, and other corporate needs. We are looking to further enhance our platform through new and innovative ways by piloting a blockchain technology initiative, partnering with Chain for the clearance and settlement of these transactions.



Equally important, NPM enables us to cultivate relationships with these early-stage growth companies and their investors much earlier in their lifecycle, and will open doors to other opportunities in our listings and corporate solutions businesses.

Acquisitions have been strategically important to expanding our portfolio and improving our ability to serve clients. Let me provide you with a few highlights.

Our index business, part of our information services segment, has really been one of the foundational businesses for NASDAQ over the years, and has been a growth driver as we have expanded our industries beyond NASDAQ-listed benchmark products. In particular, NASDAQ has spent the past five years working with our ETF sponsor partners and with investors to develop and launch outcome-oriented smart beta index products, most notably our Dividend Achiever ETFs, Buyback ETFs, and our BulletShares ETFs.

In response to ever-growing investor interest in a smart beta investment strategies, in January we added to our businesses, Dorsey Wright. I'm happy to report that this business was immediately accretive to our earnings, and more importantly, continues to outperform our growth and return expectations, contributing meaningfully to our information services segment record revenues during the quarter.

Assets under management in DWA license exchange traded products have risen over 75% since our late January closing of the acquisition. Around that time, on the fourth-quarter 2014 earnings call, we said we expected \$5 million per quarter in incremental revenue from DWA, but growth has still -- has since driven that second-quarter contribution to north of \$8 million in the quarter. We are also working on multiple fronts to accelerate this already strong growth in this business by increasing our investment in new product development and sales capability.

Another key area of our Business where our intense focus on our clients' needs is beginning to bear fruit is corporate solutions. We prefer to compete in spaces where our investments in expertise and technology can be levered for superior client solutions and clear competitive advantages.

Over the past year, we have invested heavily in new product development. And today, our NASDAQ IR Insights' next-gen IR desktop product, a centerpiece of the corporate product suite, will enable us to transform this space and deliver a significantly enhanced experience for our clients. We have been showing this product to customers most recently at the Annual NIRI Conference in Chicago and testing it in the field with a growing list of some of our most important clients, and the response has been overwhelmingly positive.

We are also releasing for the first time the market pure insight version of IR Insights this month, a product with a subset of functionality of the full IR platform. While this product satisfies the needs of a certain segment of the customer base, it will also allow many customers and prospects to experience most of the commonly used functionalities, and see our new user interface. As we move through the beta versions and into production launches, I'm excited at the prospect of more people getting more exposure to these compelling solutions.

More broadly, the work we are doing internally with corporate solutions to improve and expand our processes for how we interact with our customers through our service excellent initiatives and back-office improvements in billing are starting to resonate, and should further help us drive growth with encouraging trends in terms of improving retention rates and new sales leads. So, if you look at our progress and the path we are on in corporate solutions is a great example of our intense focus to understand our customer needs and then apply that with technology and expertise to introduce products that exceed our customers' expectations.

eSpeed is another business where we have made significant progress to improve our product menu and capabilities to expand the opportunities for our customers. We are in the process of expanding the offering to cover the treasury bond market over a security's complete lifecycle from the when issued market that precedes the primary issuance to the on-the-run market to the role products that help users move from one on-the-run issue to the next, to the off-the-run market and finally, the [short choice] markets with bonds less than 18 months till expiration will trade like bills.

In all cases, we believe electronic trading of these product classes will enhance transparency, provide reliability and resiliency, and dovetail with regulator and customer priorities in terms of regulation and clearing. As we progress along with this menu expansion phase, we're also positioning ourselves to take advantage of the potentially significant volume upticks as the Fed signals a rate tightening cycle.

Finally, I want to talk a little about our blockchain initiative, which is another example of our maniacal focus on how to lever new and innovative technologies to develop efficient and effective client-centered solutions. As a technology company and the inventor of electronic trading, NASDAQ is in the business of innovating, developing and adapting new technologies with the goal of delivering global capital market efficiency.

We believe that blockchain technology holds great promise in allowing capital markets to operate more efficiently while simultaneously providing greater transparency and security, all of which are fundamental to the public interest. We are currently exploring the use of blockchain technology in NASDAQ Private Market. We're targeting initial release of this technology in the fourth quarter of 2015. We also plan to announce further blockchain initiatives in the future.

The application of blockchain technology within NASDAQ's Private Market aims to modernize, streamline and really secure cumbersome administrative functions and simplify the overwhelming challenges private companies face with manual ledger record-keeping. We see many applications beyond private markets. It is early days, but we see blockchain technologies holding great potential to provide increased efficiencies to the broad financial sector and all its members. We are taking significant but measured steps so that we are certainly positioned to be a central part of this disruptive technology.

In closing, the results we delivered this quarter, as well as those examples I outlined here today, illustrate our strong client-centered focus, our ability to execute and to run this Business both efficiently and effectively. They are the essential elements that drive our performance and the results we deliver. We are very pleased with our performance this quarter, and it's certainly an exciting time to be here at NASDAQ with NFX, NASDAQ IR Insight, Dorsey Wright, and all of the other products and initiatives we have in our pipeline. We are poised to continue to grow this Franchise for months and quarters to come.

And with that, I'll turn the call over to Lee.

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**Lee Shavel** - NASDAQ OMX Group, Inc. - CFO

Thanks, Bob. The following comments will focus on our non-GAAP results. Reconciliations of 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](http://ir.nasdaq.com).

I want to start off, as I did the last few quarters, by highlighting the impact the stronger dollar had on our results, as it obscures, in many cases, solid organic growth that we saw in the Business. Revenues of \$518 million were reduced by \$29 million from the prior-year quarter as a result of the stronger dollar. And excluding foreign exchange and acquisition impacts, revenues were up \$16 million, or 3%, with 3% organic growth, both across the non-trading segments as well as in market services. Operating income growth was 6%, excluding the impact of foreign exchange. In order to provide greater understanding of these effects on the business units, we continue to provide a schedule of the FX impact on the revenues for each business unit on page 15 of the presentation.

I'll start by reviewing second-quarter revenue performance relative to the prior-year quarter, as shown on page 3 of the presentation. The 1%, or \$5 million, decline in reported net revenue of \$518 million consisted of: organic growth in the non-trading segments of \$10 million, or 3%, from growth in listings, information services and market technology; and \$8 million in revenues from the DWA acquisition, partially offset by a \$15-million impact of FX, for a net \$3-million increase in reported revenues and organic growth in Market Services; net revenues of \$6 million, or 3%, the result of higher Cash Equity revenues, partially offset by lower Equity Derivative and FICC trading revenue, coupled with a \$14-million FX headwind for a net \$8-million reported decline.

And if we move to page 4 in the presentation, we show how organic growth breaks down historically between the Non-Transaction, Information Services, Technology Solutions and Listing services segments, which had 3% organic growth this quarter, steady with the prior quarter, and the volume-sensitive Market Services segment at 3% organic growth for the quarter.

On a bottom of this page, we reiterate our views on the medium-term organic growth outlook for the non-transactional segments. As I've said in the past, these views were meant to reflect multi-year, cross-cycle periods, and actual growth in shorter periods can be above or below these ranges.



I'm now going to go over some highlights within each of our reporting segments. All comparisons will be made to the prior-year period, unless otherwise noted.

Information Services on page 5 saw a \$1-million, or 1%, operational gain, an \$8-million increase from the DWA acquisition, partially offset by \$4 million of FX headwinds for a \$5-million net increase in reported revenues, while the operating margin came in at 70%. Data Products revenues saw a 2% operational increase, as growth in tape plan and proprietary revenues, and the inclusion of DWA, more than offset a \$6-million decline in audit collections. Index Licensing and Services saw a 32% increase, due principally to the inclusion of DWA revenues, and secondarily to higher revenues from exchange-traded products licensed to NASDAQ indexes on higher assets under management. Assets under management and exchange traded products licensed to NASDAQ indexes rose 13% to \$108 billion at the end of the quarter, due to both organic growth and acquired DWA assets under management.

Technology Solutions, as shown on page 6, saw unchanged revenues operationally, which, compounded with \$8 million in FX headwinds, resulted in an \$8-million reported decline, though the operating margin rose to 14% from 11% in the prior-year period, and operating income rose 19%. Market Technology revenues saw a 2% operational increase, due in particular to growth in smart surveillance product revenues. And new order intake was \$31 million in the second quarter. New order activity continues to be healthy, with many new contracts in SMARTS and Bwise, and several advanced discussions in the more binary large deal segment. The period-end backlog finished at \$707 million, up about 7% year over year.

Corporate Solutions revenues saw a narrowing 1% operational decline, as we continue progress through the late stages of the integration and customer transitions from the acquisition of the Thomson Reuters corporate businesses. We are seeing stabilizing revenues as we continue to complete the migrations and integration through year end, with clear signs of progress in terms of positive net subscription sales in the first two quarters of 2015, positive market reaction to the next-gen IR Insights platform, and margin improvement year over year. But we continue to experience competitive pressures in select products, overall we continue to be optimistic on the intermediate growth opportunity for the Business.

As I previously noted, the segment operating margin of 14% was a material improvement compared to the prior-year period's 11%, helping drive 19% growth in operating income year over year. Looking forward, we see ourselves as remaining on track to deliver significant year-over-year improvement in the Technology Solutions margin in 2015, exit the year in the mid- to high-teens level, and continue working to realize our higher medium-term profitability goals.

Listing Services, on page 7, saw a \$9-million, or 15%, operational increase in revenues, driven by pricing changes and an increased issuer base, partially offset by \$3 million of FX headwinds, resulting in a 10% reported increase in revenues. Operating margin of 44% was up from 42% in the prior year. The US issuer base has 4% more companies at the end of the quarter compared with the prior-year period, while in the Nordics the count is 7% higher, with a 14% higher local currency market capitalization.

Market Services, on page 8, saw a \$6-million, or 3%, operational increase in net revenues, which was more than offset by a \$14-million negative FX impact, resulting in a reported revenue decline of 4%. Operating margin, however, rose to 53% from 51% in the prior-year period. Equity Derivatives Trading and Clearing net revenues saw a 6% operational decrease due to lower US equity options market share, partially offset by organic growth in Nordic equity derivatives revenues.

Cash Equities Trading net revenues saw a 20% operational increase, as higher US Cash Equity average capture, and increased US and Nordic industry volumes, were partially offset by lower market share. Fixed Income Currency and Commodities Trading and Clearing net revenues saw a 13% operational decline from the prior year, with principally volume-driven declines in most FICC product categories, and the scheduled end of revenues associated with an eSpeed technology license customer. And Access & Broker services saw a 3% operational increase.

Turning to pages 9 and 14 to review the income statement and expenses, operating expenses increased by \$9 million, or 3%, on an operational basis, more than offset by an \$18 million in FX impact, resulting in a \$9-million, or a 3%, reported decline. Included in second-quarter non-GAAP operating expenses were over \$5 million related to discrete legal expenses, as well as some start-up costs for the NASDAQ Entrepreneurial Center in San Francisco. In the first half of 2015, operating expenses have seen zero organic growth compared to the first half of last year, due in large part to the restructuring actions we detailed in the first quarter of 2015.

Non-GAAP operating income in the second quarter of 2015 rose 6% on an operational basis, but this was partially offset by foreign exchange resulting in a 2% reported increase. Non-GAAP operating margin came in at 46%, up from 45% in the prior period.

Net interest expense was \$26 million in the second quarter of 2015, a decrease of \$3 million versus the prior year, mainly due to the favorable impact of foreign exchange related to our euro-denominated debt. We also recorded non-operating income related to our equity method ownership interest in OCC. The non-GAAP effective tax rate for the second quarter was 33%, at the lower end of our 2015 33% to 35% effective tax rate guidance range for the year, which we still think is the best projection for our full-year 2015 effective tax rate.

Non-GAAP net income was \$143 million, or \$0.83 per diluted share, compared to \$131 million, or \$0.76 per diluted share, in the second quarter of 2014. The \$0.07 increase in our non-GAAP EPS represents core organic EPS growth of \$0.04 -- \$0.04 due to lower taxes, \$0.02 due to acquisitions, and \$0.01 due to non-operating expenses, partially offset by \$0.04 impact of changes in the foreign exchange rates.

Moving on to the balance sheet, cash flow and capital, please turn to slides 11 and 12. Our gross-debt-to-EBITDA leverage ratio declined to 2.2 from 2.3 times in the first quarter of 2015, due to both a slight decline in our debt level and increased trailing 12-month EBITDA.

I'd like to take a moment to review the second-quarter highlights in our evolving capital deployment. On capital return, in April, we announced a 67% increase in the quarterly dividend and \$25 million in share buybacks, bringing the total shareholder return pay-out ratio to 47% of non-GAAP net income. The Dorsey Wright acquisition is performing above expectations, with a healthy return on investment and significant accretion. And we continue to invest steadily in promising organic initiatives like NFX within the context of a \$30 million to \$40 million projected research and development budget for 2015. So, we're pleased to be finding attractive capital deployment and return opportunities across a variety of channels, and we'll continue to look to put capital we generate to work wherever we see the highest returns to shareholders.

Thanks for your time, and I will now turn it back to Ed.

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**Ed Ditmire** - *Macquarie Capital Securities - Analyst*

Operator, can we open the line up to Q&A?

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## QUESTIONS AND ANSWERS

**Operator**

Thank you.

(Operator Instructions)

In the interest of time, we ask that you please limit yourself to one question and we'll take additional questions if time permits.

Rich Repetto, Sandler O'Neill.

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**Rich Repetto** - *Sandler O'Neill & Partners - Analyst*

Good morning, Bob. Good morning, Lee.

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**Bob Greifeld** - *NASDAQ OMX Group, Inc. - CEO*

How are you doing, Rich?



**Rich Repetto** - *Sandler O'Neill & Partners - Analyst*

Doing good, Bob. The one question, if I got the one, but you had a significant increase in the US equity revenue capture. I know it was lower volume and mix shift but you also did some pricing tweaks. And I guess I'm just trying to balance but that's positive. The market share is down to about 18.5%. I guess I'm -- in the past, you talked about maintaining market share because of the overall enterprise importance of having significant share. So how do you balance off, again, market share? You're doing well with the revenue capture if it can stay that high. But is there some market share that you're going to have to defend and that, that will -- that you will need to adjust mark -- the revenue capture down?

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**Bob Greifeld** - *NASDAQ OMX Group, Inc. - CEO*

All right, so, let me say two things. One, we always seek to balance share versus capture. And I'd make the general statement that our capture rate is probably at the high end of our expectations, and our share is slightly below our expectations. So you'll probably see us have a little redress of the balancing. But overall, I'd say we are pleased with the balance that we have today. With respect to the second part of your question, it's important to recognize that with Tape C, we are, by far and away, the largest trading venue in those share -- in those stocks, and that's what we pay particular attention to.

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**Rich Repetto** - *Sandler O'Neill & Partners - Analyst*

Okay. That is helpful. Thanks Bob.

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**Operator**

Rob Rutschow, CLSA.

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**Rob Rutschow** - *CLSA - Analyst*

Hello, good morning. Just a question on the Corporate Solutions business. It looks like you have pretty good incremental margins so I'm wondering if you can update us on how much of the protected cost savings you've got in there and if you can give us a little bit more color on what drove the sequential increase in revenues, if there are any puts and takes there?

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**Lee Shavel** - *NASDAQ OMX Group, Inc. - CFO*

Yes. So in terms of where we stand on projected cost savings, I would describe it as we are ahead of plan, as we've said in the past, in achieving of the cost savings in the overall business. But we still have yet to complete the full transition so are still bearing some duplicative costs on multiple platforms. In terms of the improvement this quarter, I think we've continued to see the benefit of some revenue momentum within the business as well as cost savings that we've been able to achieve as a function of just ongoing integration. Some of the restructuring efforts that we've taken, again, in the past quarter and then some also business mix shifts in the quarter relative to the prior year that generated higher margins. So I think it's a combination of all of the above that have driven us to that improvement.

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**Bob Greifeld** - *NASDAQ OMX Group, Inc. - CEO*

And I would say that while we're on track for our cost savings, it's important to recognize that we still have been focused on effectiveness first with this business and I think Adena and team are doing a great job to get us to an effective stage. And then there would be more of a maniacal focus of cost efficiency. But right now, we're making sure that we're delivering the best product to our customers as possible in the best possible way and obviously focused on spending a lot of time, effort, and money with our next-gen platform, which I said in my prepared remarks, we're happy that's really moving from the beta stage to a production stage for the limit set of our customers.

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**Rob Rutschow** - CLSA - Analyst

Great. Thanks for the color.

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**Operator**

Chris Allen, Evercore.

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**Chris Allen** - Evercore ISI - Analyst

Morning, guys.

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**Bob Greifeld** - NASDAQ OMX Group, Inc. - CEO

How are we doing?

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**Chris Allen** - Evercore ISI - Analyst

Good. Just within the Technology Solutions segment, just wondering maybe if you could give us a little bit more color just in terms of how to think about this trajectory revenue going forward? Maybe within Corporate Solutions, like how long is the sales cycle for the next-generation IR platform and with a market technology, the order backlog looks good, a big chunk of that is Borsa, Istanbul. I'm just wonder when exactly it will be coming online?

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**Bob Greifeld** - NASDAQ OMX Group, Inc. - CEO

Okay. One, I'd say the important thing is that we see an increasing acceptance from the customers of the product set. As I said in my prepared comments the response has been overwhelming and that will always proceed in increasing revenue. So we're doing all the right things.

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**Adena Friedman** - NASDAQ OMX Group, Inc. - Co-President

In terms of the sales cycle for an IR client, it can honestly be as short as a month or as long as four. I think that it just depends on how ready they are to make a decision and whether or not they do a very thorough analysis or whether they understand that we have the best solution right off the bat. So it really depends. We also -- we will be spending most of 2016 making sure that we upgrade our clients to the new platform in addition to selling new clients with the new platform so that will be a transition period for us. In terms of market technology, Borsa, Istanbul is a project on track, but we will not be completing that product until the second half of next year. So that's when you'll start to see the revenue come online.

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**Lee Shavel** - NASDAQ OMX Group, Inc. - CFO

Chris, this is Lee. Just to add to that. From an accounting standpoint, there are some changes in revenue recognition rules that are coming into play that we expect under the current accounting rules, we may begin to recognize some of that revenue in 2017. But I want to make it clear, look, apart from how -- what happens from an accounting standpoint, this is very substantial from a cash flow standpoint for us. There's real value that may not be fully reflected in the GAAP results. And we're happy to talk more about the significance. It is one of the largest market technology contracts that we've signed in the business. So it has a meaningful effect.

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Then in terms of ongoing growth across Technology Solutions, we continue to support the mid-single digit growth across Technology Solutions as a whole. I think it's important to recognize that for the remainder of 2015, as we finalize the integration of Corporate Solutions, that we are expecting stable but not significant growth in revenues within that business, recognizing that we are, as Bob said, focused on effectiveness first within that business. But longer term, we continue to be very optimistic about the achievement of those growth targets in that business.

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**Chris Allen** - *Evercore ISI - Analyst*

Thank you.

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**Operator**

Ashley Serrao, Credit Suisse.

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**Ashley Serrao** - *Credit Suisse - Analyst*

Good morning.

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**Bob Greifeld** - *NASDAQ OMX Group, Inc. - CEO*

How are we doing?

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**Ashley Serrao** - *Credit Suisse - Analyst*

Doing well. Just want to -- I just heard you comment on capital management but how are you thinking about doing smaller deals out there, similar to Dorsey or Motion that you had a lot of success with?

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**Lee Shavel** - *NASDAQ OMX Group, Inc. - CFO*

Great question. So one is we continue to see a deal market where the valuations are frothy. Some could argue irrational. So we're not going to participate at that level. But there is a lot of deals that we do look at. We have a firm discipline in place in terms of how we evaluate these transactions. To the extent, this better value on the smaller end where we can lever our branding and our distribution capability. Those are particularly attractive to us. The answer is yes, we'd like to do more of those type deals but the pricing has to be right and the situation really has to represent, in many ways, a perfect storm of opportunity with the core value being that we're leveraging our mothership in some fundamental way.

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**Operator**

Brian Bedell, Deutsche Bank.

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**Brian Bedell** - *Deutsche Bank - Analyst*

Hello. Good morning, folks. Bob, maybe can you talk a little bit more about the NFX game plan starting up tomorrow? Maybe some goals in terms of market share, intermediate to longer-term revenue, contribution and, again, maybe just highlights and differences versus the NLX initiative and whether you may retool the NLX initiative based on what you might be seeing at NFX in the future?



**Bob Greifeld** - *NASDAQ OMX Group, Inc. - CEO*

Great question. So me start by saying that NLX, I think, had a strong quarter. Not visible, obviously, in the financials of market share, but with respect to engagement with our customers, we had one of the large banks come live for the first time on NLX just last week. And on discussions with the proposed members of NLX 2.0 continues and we're happy to have come to a successive conclusion with our partners on NLX 1.0 so that's there. We're still excited by their prospects.

With respect to NFX, I think a key differentiator is you've had a broad-based support and I'd say that the support has gone somewhat viral from the natural providers of liquidity to the major banks to the FCMs to the market-making firms, you name it. They all seem to be wanting to be involved with this initiative. So that's been, I think, relatively easier than NLX straightforward. As I said, we certainly would spark the catalyst but we were touching a nerve that obviously the customers wanted us to. And they're anxious to have some competition in this space. In our options business, we have a revenue per contract in the teens, call it, \$0.16 or \$0.18. We see in this world that the revenue per contracts are about \$1.38 to \$1.42. We could come in at half that price and obviously, be quite happy with the margin we'll get.

And as important as that is the fact that OCC represents a horizontal clearing alternatives and similar to NLX with LCH. And when we talk to our customers, there's not one customer you run into that says -- boy, I really like being in a vertical monopoly. So we're trying to address the customer needs there. So we're enjoying broad customer support. It's also important to recognize that the structure of NFX strongly encourages people to be active participants, I think, in a more fulsome way than we had with the original analytics. So we think that will yield a positive outcome. So we're all excited here about day one. We want to start slow and then build from there.

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**Brian Bedell** - *Deutsche Bank - Analyst*

That's helpful. Do you have a sense of what kind of market share you would try to be achieving to get scale to build the liquidity in the products?

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**Bob Greifeld** - *NASDAQ OMX Group, Inc. - CEO*

Yes, I think our traditional measure is you need about a 10% market share to have reasonable debt and liquidity in your book. So that's our target over the next 18 months to get to the 10% number.

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**Brian Bedell** - *Deutsche Bank - Analyst*

Okay, great. Thank you.

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**Bob Greifeld** - *NASDAQ OMX Group, Inc. - CEO*

Hans-Ole, do you want to add anything to that?

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**Hans-Ole Jochumsen** - *NASDAQ OMX Group, Inc. - Co-President*

No, within 18 to 24 months.

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**Bob Greifeld** - *NASDAQ OMX Group, Inc. - CEO*

I said 18, not 24.



**Hans-Ole Jochumsen** - *NASDAQ OMX Group, Inc. - Co-President*

If I should say one thing, we have already seen the last couple of weeks that even the utilities in this market have also been very keen to be connected to the market. So it's not only the usual market participants, it is also the utilities -- the big utilities in US who want to be part of this venture

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**Bob Greifeld** - *NASDAQ OMX Group, Inc. - CEO*

It definitely has a viral aspect to it. As good as our sales pitch is, there's definitely a viral aspect to this effort.

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**Brian Bedell** - *Deutsche Bank - Analyst*

Great. Thanks so much for that color.

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**Operator**

Kyle Voigt, KBW.

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**Kyle Voigt** - *Keefe, Bruyette & Woods - Analyst*

Hi, thanks for taking my question. I guess on -- if I could turn to the Listings business, it looks like you're expecting really solid growth there, with revenue up about 15% year on year on a constant currency basis. Can you just give us some more info as to what exactly you're changing on the pricing side, is it the tweaking both the initial and annual listing fees? I guess I'm just trying to better understand the sustainability of the revenue growth here as we're looking out over the next couple of years? Thanks.

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**Bob Greifeld** - *NASDAQ OMX Group, Inc. - CEO*

So I'll say a couple of things and then turn it over to Adena. One is, I would also highlight on the Listings side the strong performance in the Nordics, and That gets overlooked a little bit, I think, too much. And it really has been a remarkable the success we've had there. With respect to the US, we are here at the market site today and it's been a wonderful week.

We had the PayPal spinout happening and yesterday, Blue Buffalo had, obviously, a very successful IPO. We're also very happy to win Pure Storage a week or so ago and as we said before, we have a 70% win rate. So we have a high degree of issuance. We have an increased win rate and that certainly is contributing to our performance.

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**Adena Friedman** - *NASDAQ OMX Group, Inc. - Co-President*

So in terms of the pricing change, we announced the pricing change in the fall and it was primarily related to the annual listing fees. And we also announced that the potential impact of that as we went into the fourth-quarter earnings. And we are experiencing the benefits of that pricing change. The most notable change really is at the top end of our fees where we are now allowing issuers to opt-in to an all-inclusive fee, which means that they will no longer be subject to any listing of additional shares, fees, or any other administrative fees. And the maximum charge for a listing based on their shares outstanding is \$155,000 a year. We did see significant opt-in to that pricing level and will we will continue to offer the opt-in over the next two years. So we've just have seen a lot of success in the adoption of the fees that we put out for the firm. And frankly, a lot of support for that all-inclusive fee.

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**Operator**

Chris Harris, Wells Fargo.



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**Chris Harris** - Wells Fargo Securities, LLC - Analyst

Thanks, good morning.

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**Bob Greifeld** - NASDAQ OMX Group, Inc. - CEO

Chris, how are you today?

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**Chris Harris** - Wells Fargo Securities, LLC - Analyst

Doing well, Bob. Follow-up on Corporate Solutions. Thanks for the detail on the sales cycle for next-gen IR. I just wondering if you guys could clarify when exactly you are planning to launch that? Is that still -- I think I remember it being Q4. And along with that, when you guys do launch, are you anticipating making any pricing changes given the positive feedback you've been getting from potential customers?

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**Bob Greifeld** - NASDAQ OMX Group, Inc. - CEO

So I would say, one, we have a version of the product coming out in the July/August timeframe, which will address, in a comprehensive way, a very small subset of the users. So that's a good experience for us and a good ramp in terms of we get to test the underlying technology and get some user response. In the meantime, we'll be working on the full production release and your data is correct. So we expect to have a product in place that should address 85% of the market by the end of this year. So we're excited about that. In the beginning, the pricing is not our focus. It's to make sure it's the best product. But we certainly think we have upside to both the revenue side. And probably, as importantly, I think with the new product deployment, once we get beyond the dual cost structure, we'll have a simpler way to deploy this product, which should represent improved margins over time.

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**Chris Harris** - Wells Fargo Securities, LLC - Analyst

Thanks.

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**Operator**

Michael Carrier, Bank of America Merrill Lynch.

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**Michael Carrier** - BofA Merrill Lynch - Analyst

Thanks, guys. Just a question on the Information Services segment, too. I guess two parts. Just on the index licensing and services, obviously, you've seen some good traction there. I'm just wanting to get the outlook, particularly with DWA and that business in terms of what you see or where you see the growth coming from? And then, Lee, maybe just on the data part of the business given that we do have some of the audit adjustments each quarter, just wanted to get an outlook for the second half of the year there?

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**Bob Greifeld** - NASDAQ OMX Group, Inc. - CEO

So I'll start with the broad strategic direction we have. So we certainly believe that passive investing, represented by indexing, will continue to grow as a percent of assets under management. But then we also think, within that category, smart beta will grow even faster. And that we recognize that passive investing has somewhat of a natural ceiling because you're bound by a set of predetermined rules. Smart beta allows you to put some more intelligence into the passive space and witness not just the DWA acquisition but obviously, dividend achievers and some internal products



that we're developing. So that certainly represents, looking at Adena, put some pressure on her to get a double-digit growth opportunity over time. Right, Adena?

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**Adena Friedman** - *NASDAQ OMX Group, Inc. - Co-President*

I would agree in the overall growth of smart beta.

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**Bob Greifeld** - *NASDAQ OMX Group, Inc. - CEO*

Go ahead, Lee.

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**Lee Shavel** - *NASDAQ OMX Group, Inc. - CFO*

So Michael, I'm glad you asked the question and just to kind of -- there are a lot of moving pieces in the Information Services business. As you noted, there was a \$6 million change in the overall audit revenues year over year that the audit revenues were down \$6 million in this quarter. And I think it's important to understand if you want to try to get into kind of a clear organic growth for the quarter year over year and you take the operating impact that is, ex-FX, increase of \$9 million and you take out the DWA impact of \$80 million for the quarter.

But then also keep audit flat from the year-over-year period, our Information Services revenue would have been up \$7 million, or 6%, which is very consistent with revenue growth guidance that we have given for that segment. And I think that's a reasonable basis as we look out over the longer term for that. I do think that, from an audit revenue standpoint, we are seeing kind of a stabilization in that revenue and so we may have, from quarter to quarter, some upside or downside. But I think the level that we're at right now is a good baseline to use.

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**Michael Carrier** - *BofA Merrill Lynch - Analyst*

Okay. Thanks a lot.

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**Operator**

(Operator Instructions)

Ken Worthington, JPMorgan.

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**Ken Worthington** - *JPMorgan - Analyst*

Hi, good morning. On NASDAQ Private Market, are there metrics that you're seeing that show that the 100 or so companies that are signed up are utilizing the services offered. So either metrics on secondary transactions or capital raise or something on access to liquidity. And then what are the next steps for NPM?

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**Lee Shavel** - *NASDAQ OMX Group, Inc. - CFO*

Sure. Great question. So I would say, one, let's start with the initial focus and that's cap table management. We have clear metrics on how many customers are using gotten how sophisticated their use is of cap table. That's kind of our first foray into the customers. Then the second stage, we run liquidity programs for them and we track, one, the size of the liquidity program and then, two, how often they're running it. And then as we evolve over time, it's going to be how broad the participation is in those liquidity programs. Typically, they are employee programs today, but we certainly see the ability to evolve to a credit investors or early-stage VC firms participating in some of those liquidity programs. So we definitely



are, one, excited about the progress in a short period of time. Definitely see this market evolving. And we definitely pay very close attention to what I'd call the non-financial metrics which you are looking at now, which kind of referencing now which will really gauge our progress in the medium term.

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**Ken Worthington** - *JPMorgan - Analyst*

Great. Thank you.

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**Operator**

Thank you. I'm showing no further questions. I will now turn the call back over to Bob Greifeld for closing remarks.

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**Bob Greifeld** - *NASDAQ OMX Group, Inc. - CEO*

Another great quarter for NASDAQ. Record earnings on a number of different measurements so we're proud of that. But I also say we're most proud of the fact that we are, again, well-positioned in each of our businesses and I think are taking the lead in innovating in a number of those businesses in our pipeline, on our new products coming, I think, are incredibly strong. So we are fundamentally excited about our prospects going forward. We appreciate your support and look forward to getting back together with you next quarter. Thank you.

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**Operator**

Thank you, ladies and gentlemen. That does conclude today's conference. You may all disconnect and everyone have a great day.

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