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Corporate Participants

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Other Participants

Ashley N. Serrao – Analyst, Credit Suisse Securities (USA) LLC (Broker)
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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the NASDAQ OMX First Quarter 2014 Results Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session, and instructions will follow at that time. [Operator Instructions] As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference, Ed Ditmire, Vice President of Investor Relations. Sir, you may begin.

Edward P. Ditmire, Vice President-Investor Relations

Good morning, everyone, and thanks for joining us today to discuss NASDAQ OMX's first quarter 2014 earnings results. On the line are Bob Greifeld, our CEO; Lee Shavel, CFO; Ed Knight, General Counsel; and other members of the management team. After prepared remarks, we'll 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 the disclosure obligations under SEC Regulation FD.

I'd 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.

Robert Greifeld, Chief Executive Officer & Director

Thank you, Ed. Good morning, everyone, and thank you for joining us today to discuss our first quarter 2014 results. We are pleased to report another consecutive quarter of record results, which is another proof point validating our long-term strategic vision of leveraging our organizational and technological advantages in our core businesses into adjacent opportunities, while simultaneously maintaining a maniacal focus on executing our core mission.

Before we get to the details of our performance, I want to start by acknowledging that we understand there's a topic of interest to investors, U.S. equity market structure issues. And we will cover this topic in more detail a little further along in our remarks and certainly answer any and all of your questions to the best of our ability during the Q&A portion of the call.

First though, I think it is important that we provide a clear picture of the strong results we delivered in the quarter. This will serve as a proper backdrop in context for all discussions.

When we look at the course this franchise has pursued over the last decade and the transformation we have undergone, it is quite remarkable. The actions we took over the last year through our acquisitions and investments have positioned this firm for the strong results we're delivering today, our second straight quarter of record financial results. This will position us also to deliver in the quarters to come.

During the first quarter 2014, we, again, set new record levels in revenues of $529 million and non-GAAP EPS of $0.72, the latter which rose 13% year-over-year. Even more of interest to us is the near-double-digit organic revenue growth of 9%, including organic growth contribution from each of our four business segments, the principal driver for these record earnings.

We had an astounding 64% win rate in U.S. IPOs and hosted the large Nordic IPO by market capitalization in 14 years. Our Index Groups or AUM in licensed ETPs crossed $100 billion for the very first time. And very importantly, our equity market share on both sides of the Atlantics saw significant increases. To me, these are positive signs that our efforts are on the right track and the chosen businesses we continue to resonate with positive momentum in the marketplace.

I want to turn to some of the business highlights that we think of are of particular interest and contributed to the record results we delivered. Our model and approach continue to allow us to capitalize on the opportunities in front of us.

When we look at the broader scope of what we do and how we do it and the value we deliver in the marketplace is that our businesses are rooted in advanced technology and the distribution of data and information. We have certainly excelled at innovating in this space over time.

Technology is truly the connected tissue across all our businesses and allows us to have clients to move seamlessly across today's global capital markets. Clearly, one of the more remarkable highlights for this quarter, which is central to the value proposition, is our Market Services segment.

This quarter, net revenue was up 17%, led by a strong equity market share, which rose 2% in the U.S. and 3% in the Nordics with a material caps rate also increasing in U.S. equities. Importantly, equity trading rose year-over-the-year for the first time since the third quarter of 2011 in both U.S. and Nordic markets. Truly outstanding, an event from which we're always happy to be the beneficiaries. It is our hope that this positive trend will continue not only for our businesses, but as further evidence that positive investor sentiment is steadily returning to the financial markets.

In Europe, the elevated IPO activity tends to help increase market share and we continue to benefit from generally improving values of traded stocks throughout the region. Closer to home, I want to commend our U.S. equity transaction team, which over the course of the last nine months has seen steadily improving market share and caps rates, which highlights our focus on strengthening the competitive standings of this franchise. As a result of these efforts, we saw a healthy 11% year-on-year increase in U.S. equity volumes and in turn a 39% increase in net revenues.

While the majority of our transaction revenue over 60% is from derivative and fixed income products, which have the strongest opportunities for us, we are encouraged by the strength the equity markets have exhibited, and they remain fundamental in core to what we do.

Building on recent momentum, our Information Services segment continued to demonstrate strong performance during the quarter. Revenue rose 16% to a record $123 million driven by both the 35% increase in our Index Licensing and Service revenue and continued healthy growth in market data.

During the quarter, we brought several new index products to market including the first ETF to be launched in the New Year, the First Trust NASDAQ Rising Dividend Achiever ETF. In addition, we are certainly pleased to celebrate the 15-year anniversary of the flagship product of our index business, QQQ. Now the PowerShares is QETF.

It is remarkable to think that these products started a little over $14 million in assets under management in its first year, and today has over $40 billion and is one of the most heavily-traded securities and one of the largest ETFs on the planet.

Just to give you a little more perspective of leadership in this area, we are one of 10 only index companies with licensed exchange-traded products with over $500 million in AUM. That's truly remarkable. The innovative work we are doing today with our Global Index Calculator and establishing benchmarks will continue to transform the index industry just as the Qs have done for the ETF industry. We are pleased with our progress, and we expect our efforts to continue to produce positive results.

Another bright spot for us and one that bodes well for not only our business but for the broader economy and job creation is the continued strength we are seeing in the IPO market. During the quarter, there were 73 U.S. IPOs, up from 34 in the prior-year period. And let's remember, last year was a pretty good year. Our share of U.S. IPOs is 64%, well above the levels we've been seeing for the last five years or so. This is partially as a result of increase in healthcare listings, another sector where we continue to win the majority of IPOs coming to market.

As I mentioned earlier, we also are seeing strong activity in our Nordic markets, where we recently welcomed ISS Group A/S, the largest Nordic IPO in over 14 years measured by marketcap. They raised $1.5 million in USD.

One of the core missions of this firm is always to be a partner and advocate for our customers and particularly the innovative companies who need access to capital to grow their franchises. This was certainly the driver behind the NASDAQ Private Market, NPM, a new innovative marketplace aimed at private growth companies that we launched during the quarter.

It is early days yet, and while we cannot change the world in seven days, we are very encouraged by the robust pipeline of quality companies engaged with us, and we are very close to launching our very first liquidity program, truly an historic event.

Now, I want to spend a few minutes and update you on our 2013 acquisitions, which remain key areas of focus for us as we continue to work to improve these franchises and position ourselves to deliver significant synergies in the near future. With the Thomson Reuters' IR/PR/MM business acquisition, we are focused on how we can improve our efficiency and effectiveness, and delivering the best product and solutions for the best client experience. Specifically, we are focused on enhancing our product offerings and combining our best product and services to deliver something that no one else in the marketplace can match on an equal basis today.

We are leveraging our scale and expertise to consolidate and retire six legacy platforms over the next 18 months, taking our total number of platforms from 17 to 11. This will have a considerable impact on the efficiencies we deliver to our customers, and we expect to reduce our costs. We are on track to achieve $35 million in synergies and major leg in a broader objective to hit our 20% margin target.

As I said, we have a long way to go until we are satisfied, but the progress we are making is steady and we believe the business offers tremendous value in the marketplace. We have over 10,000 potential cross-selling opportunities, and we are incredibly optimistic about this business' potential for this organization.

Now let me move to eSpeed. The sequential revenue decline in the quarter was somewhat anticipated as revenue associated with supporting a third-party exchanges technology platform had been scheduled to phase-out. That said, clearly we are pressuring ourselves to accelerate our progress with eSpeed, and May is a pivotal month for us in this regard. May represents a culmination of the integration and transition work that was started before the close of this transaction.

By the end of May, we expect to have completed our migration of the eSpeed matching engine to our data center. And as importantly during the latter part of May, we will commence the rollout of additional products on the eSpeed platform. The products will help our customers effectively manage their costs in a challenging fixed income environment. NASDAQ, as a new owner of this asset, is uniquely qualified to do that. We are confident that our efforts to enhance eSpeed's technology, expanding its product offering to more fully serve our clients will improve its competitive performance in the quarters to come.

Now, I'd like to spend a few moments talking about high-frequency trading and how we view this important topic as it pertains to the market structure debate that's been going on. NASDAQ as an SRO has been awarded three exchange licenses by the SEC in the U.S. and we provide ourselves in providing fair and open access to our markets. This is our obligation under the law and we are proud of our stewardship of these licenses since 1971.

One of the difficulties of this discussion is an inability to either define or measure HFT activity. We have all read the SEC definitions and many have read BlackRock's definition in categorizing constructive good H (sic) [HFT] (13:23) activity to destructive bad HFT activity. We certainly recognize the need and desire to communicate to investors the extent of the HFT activity in our market and to communicate in a factual data-driven method.

The availability of proper and complete data is mandatory before we can even attempt to define this activity. We believe a primary indicator HFT activity – I'll get that right – is a high order to trade ratio. That data is also completely knowable. Based on these two facts for our analysis, we concentrated on high order to trade.

Now, others may prefer different measures, and we are not here to criticize other definitions, but in the spirit of dealing with what we can clearly define and what can be clearly measured, we are adopting an analysis that focuses on firms that show a high degree of quotation to execution orders. In fact, within this context, you can also debate where we should draw the line. So we're going to show you several lines, 60 orders per trade all the way up to 100 orders per trade. That is our approach. Again, others may take a different approach, and we're not here to argue with them.

With this as a context, we look at the market participants' IDs, we call them MPIDs and we looked at those who are not registered market markers with NASDAQ and who had order-to-trade ratios of at least 60:1.

So, first question is why exclude market makers? For the very good reason that under the current regulatory regime, we believe that putting capital at risk and by continuously maintaining a two-sided market, you are, one, contributing to price discovery and helping investors for providing immediacy of execution. Now, those who are not market makers who have a ratio of 60:1, 80:1 or 100:1 high order to trade will adopt the acronym HOTT, H-O-T-T.

So, for these reasons, and taking into account the caveats that I stated earlier and which are mentioned in the deck, I call your attention to slide 21 of the presentation. The numbers aggregate revenues from these products, and they tend to rely on their activities and market data, access services, and transaction areas. This category of high order to trade ratio [ph] firms (16:00) HOTT, when you aggregate their revenue from our various products, constitutes approximately 1% of our global revenue.

We hope you find this useful. We look forward to answering your questions during the Q&A portion. And as I said before, this approach has the advantage of being clearly defined and we're the first ones putting a clear definition out there, and as importantly, clearly measurable. We have the data, we measured it, and we know exactly that the numbers we represent tie to the definition of what we're putting in front of you.

But, it's also to recognize that we say this is the revenue, and we're not saying this revenue will be impacted and I have to say here at NASDAQ OMX, recognizing that 40% of the market trades away from the lit markets. We certainly see significant opportunities as the market evolves for NASDAQ OMX to benefit. So, we certainly look forward to the continued discussion. Markets can always get better, but as I pointed out before, you don't improve your transaction cost by 14-fold without some progress being made.

In closing, I would like to say the strength we exhibit during the quarter continues to again highlight the resiliency of our business model and the soundness of our strategy. While we have certainly benefited from more and more positive macro and industry environment, we clearly advanced the ball down the field and increased our leadership position across all our businesses. We continue to exceed our customers' expectations with our disciplined approach and focus on creating value for our customers and shareholders. I know for me and this management team, it certainly is gratifying to see our business performing as strongly as they are. This is what we plan for and work towards. And so to see our efforts paying off is certainly a good fuel to push us to reach even greater heights in the quarters to come.

And with that, I would like to turn the call over to Lee who will go into more details on the numbers.

Lee Shavel, Chief Financial Officer & EVP-Corporate Strategy

Thanks Bob. The following comments will focus on our non-GAAP and pro forma non-GAAP results. Reconciliations of GAAP to non-GAAP and pro forma 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.nasdaqomx.com.

I will start by reviewing our first-quarter revenue performance relative to the prior-year quarter, as shown on page three of the presentation. Net revenues increased $111 million to a record $529 million. Contributing to this increase was an $82 million or 27% increase in subscription and recurring revenue, primarily from acquisitions, but also from material organic growth.

Subscription and recurring revenue represents 72% of our total revenues. Transaction-driven revenues rose $29 million or 24%, due a little more than half to organic growth, with the rest coming from the inclusion of eSpeed, which closed at the end of the second quarter 2013 period.

As Bob mentioned, on an organic basis, constant currency and excluding acquisitions, total company net revenues rose 9%.

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 four, which includes our market data and index businesses, increased revenue 16% and operating profit by 13%. Operating margin was down marginally but remained at very high levels at 73%. Market data had a 12% increase in revenues due to a wide range of drivers including continued growth in NASDAQ Basic, which also had a price increase, the inclusion of eSpeed market data and the impact of higher equity market share and a price change on tape revenues, partially offset by lower audit collections which were $1 million lower than the prior-year period.

Index Licensing and Services grew revenues 35% due principally to the growth in assets under management and exchange traded products licensed to NASDAQ OMX, which rose 52% to $94 billion at the end of the quarter and, secondarily, the higher volumes of license derivative contracts.

Moving to Technology Solutions, as shown on page five, which includes corporate solutions and market technology increased revenues by $60 million or 80% mostly due to the impact of the Thomson Reuters and BWise acquisitions, but also due to organic growth at both the legacy corporate solutions business and in market technology. Operating profit was $8 million, up from $3 million, and the margin saw a modest uptick to 6% from 4% last year.

Corporate solutions revenue comparisons show the large step-up in scale due to the May 2013 Thomson Reuters acquisition, more than tripling compared to the prior-year period. But it is important to note that we are still seeing solid organic growth here as well, in particular at Directors Desk where we saw clients increase by 24% versus the prior year.

Market technology revenues grew 4%. The order intake of $57 million was very healthy and the backlog stood at $652, just a bit under last quarter's all-time record and up 24% versus the same year – at the same period last year. Growth included contributions from both BWise and SMARTS mitigated somewhat by lower change request revenues.

As we said last quarter, we continue to expect year-over-year improvement in Technology Solutions segment margins in 2014 and continue to target a 20% margin by the end of 2015.

In Market Services on page six, which includes our derivatives, equities and fixed income businesses, as well as associated access and broker services, we saw a 17% increase in revenues do a little more than half from organic growth. In particular, we saw material improvements in U.S. and European equity revenues and with the impact of the eSpeed transaction and hosting revenues.

Operating profit increased 27% and operating margin of 44% was up from 41% in the prior year period. Net derivatives trading and clearing rose 3%. European revenues saw a lift driven by commodities and clearing products, while net U.S. derivatives were flattish, the net of slightly higher industry volumes and modest declines in share and capture which offset.

Net equity's trading revenues rose 29% as we saw market shares several percentage points higher in both U.S. and Europe, and our U.S. capture was up materially and we enjoyed better industry volumes in both. Net fixed income trading revenues fell $3 million from the third quarter due mainly to a planned reduction in revenues associated with supporting a third-party technology customer of eSpeed.

We will continue to recognize about $1.5 million in revenues per quarter in 2014 from this client, and then we don't expect any revenues in 2015 and beyond from that third-party technology customer. Transaction revenues not associated with this client were unchanged from the fourth quarter 2013 period.

In access and broker services, revenues rose $2 million or 3% to $65 million, driven primarily by pricing initiatives and new products.

And in Listing Services on page seven, we saw a $3 million or 5% increase in revenues on higher European listing fees, which reflect higher market capitalization there and U.S. revenues which reflected an increased issuer base and more new issue activity.

Operating profit decreased $2 million or 8% to $22 million and operating margin of 38% was down six percentage points versus the prior-year period, related in part to NASDAQ Private Market related expenses.

U.S. new listings in the quarter more than doubled to 73% from 34% in the prior-year period, and our IPO win rate was 64% up from 52% for the full year 2013 and 53% in the prior year quarter due in part to high issuer activity in healthcare where NASDAQ has a dominant market share, 100% of the biotech IPOs in the first quarter listed in NASDAQ.

In Europe, the new issue market has been busy as well, with NASDAQ OMX hosting the IPO of ISS Group A/S, which by market capitalization is the largest new listing on a Nordic exchange in 14 years.

Turning to expenses, our non-GAAP operating expenses increased by $78 million for the prior year with the vast majority of the increase coming from the two acquisitions. Organic expenses excluding the acquisitions and assuming constant currency rose 6% this quarter, including gift spending above our normal organic expense growth rates due to higher incentive compensation costs, as well as the initial temporary investment spend we're making into our acquisitions.

Non-GAAP operating income in the first quarter of 2014 was $214 million up $33 million or 18% from $181 million in the prior year period. Non-GAAP operating margin came in at 40%, down from 43% in the prior year period primarily the result of a larger contribution from the lower margin technology solutions businesses due to the Thomson Reuters acquisition. As we achieve cost synergies related to this transaction, we expect to see Technology Solutions and overall margins increase.

Net interest expense was $28 million in the first quarter of 2014, an increase of $7 million versus the prior year due to increased borrowings associated with our acquisitions. The non-GAAP effective tax rate for the first quarter of 2014 was 32.8% at the low end of our 33% to 35% guidance range. Non-GAAP net income was $125 million or $0.72 per diluted share compared to $108 million or $0.64 per diluted share in the first quarter of 2013.

The $0.08 increase in our EPS reflected a $0.09 improvement in our core operating profitability, a $0.02 benefit from the acquisitions net of financing costs, partially offset by $0.01 of increased spending on GIFT initiatives and $0.02 due to a higher fully diluted share count.

Moving on to the balance sheet, on slide 13, we are showing our debt structure and debt maturities. Our higher debt and leverage versus the prior year reflects the completion of our acquisitions of Thomson Reuters at the end of May, and eSpeed at the end of June, financed largely with debt, while both our debt and leverage declined over the period since those acquisitions, reflecting debt pay down, as well as improved EBITDA.

In the first quarter, the company paid down $121 million in debt including $95 million in repayment on the revolver and $26 million on our term loan, but changes in foreign exchange rates led to a $1 million increase in the U.S. dollar amount of foreign-denominated debt on the balance sheet, netting to $120 million decline in total debt compared to the fourth quarter of 2013.

Our gross debt to EBITDA leverage fell to 2.6 times from 2.8 times last quarter and a peak of 3 times at the closing of our acquisitions in the second quarter of 2013. The deleveraging process is on track and consistent with our original expectations, and we continue to expect leverage to return to the mid-2s range by the end of the second quarter of 2014.

As we have said previously, when we have achieved our leverage target, we will have the flexibility to consider all of our capital allocation alternatives including share repurchases.

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

Edward P. Ditmire, Vice President-Investor Relations

Operator, can you please open the lines for Q&A?

QUESTION AND ANSWER SECTION

Operator: Yes, sir. [Operator Instructions] Our first question comes from Ashley Serrao of Credit Suisse. Your line is now open.

<Q – Ashley Serrao – Credit Suisse Securities (USA) LLC (Broker)>: Good morning.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: How are you doing?

<A – Lee Shavel – The NASDAQ OMX Group, Inc.>: Good morning, Ashley.

<Q – Ashley Serrao – Credit Suisse Securities (USA) LLC (Broker)>: I'm doing well. Thank you. First question just on co-location and direct data feeds, and I know the SEC has been looking in these practices for a while, but was curious if there was any change in customer behavior for – or customer demand for these services since the media scrutiny intensify?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: The answer is, no. We've seen the backlog remain fairly consistent and customer activity is at a normal level.

<Q – Ashley Serrao – Credit Suisse Securities (USA) LLC (Broker)>: Thank you. Then on cash deployment, it looks like you're ever so close to your debt to EBITDA target, but in the past, you've spoken to being opportunistic, should an index property come to market. But apart from that, is there anything else that makes sense, that intrigues you today?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: I would say this much. What we see in the marketplace is from our point of view is somewhat frothy and valuations on the sellers are, I think overdone at this point, so we're less inclined to be involved with any transactions with the current market sentiment. And I think I'll leave it at that.

<Q – Ashley Serrao – Credit Suisse Securities (USA) LLC (Broker)>: Thanks for taking my questions.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Thanks, Ashley.

Operator: Thank you. Our next question comes from Rich Repetto of Sandler O'Neill. Your line is now open.

<Q – Rich Repetto – Sandler O'Neill & Partners LP>: Good morning, Bob. Good morning, Lee. I guess, first question would be sort of on some numbers in more detail. But the U.S. market data, $71 million, very strong, but I guess I'm trying to figure out, is that volatile, much higher than last quarter, but third quarter was $73 million. So I'm trying to see why this isn't more, I guess, level? It's a good issue to have since it's up but just trying to see what's driving the increase here?

<A – Lee Shavel – The NASDAQ OMX Group, Inc.>: Yeah. Rich, I think the components that have driven a little bit of the volatility in the market data line have been the audit component, which has varied from quarter to quarter. We recognize that. We've actually been working to try to make certain that some of those audits resolutions are going to be evened out across the quarters. I think that's the primary driver of the volatility.

The other component is of course on the tape revenue, which may be influenced by market share fluctuations. We had, as Bob noted, strong market share in our U.S. cash equities business, which contributed to strength within that business. But I think the primary issue is really the audit component. If we were to break out the audit related revenues in the first quarter of this year, it was approximately a $6.6 million element, whereas in comparison to the fourth quarter of last year, it was effectively negligible and in the first quarter of 2013, we had audit revenue of $7.9 million. So, that is, I think, creating some of the noise that you're seeing.

<Q – Rich Repetto – Sandler O'Neill & Partners LP>: Got it. Thank you. And then my follow-up is a broader, I guess, more deeper question. Bob, when we talk about market structure and you're excluding the market makers, and let's just say if we both agree that some of this behavior that's being professed to be out there, let's just assume it's in the minority. But if there were regulatory changes that did impact to try to prevent some of the, let's just say, small portion of predatory behavior, wouldn't that impact market makers as well if they met whatever the – again, I agree with your definition of high-frequency trading is still pretty gray right now. But wouldn't your market makers be impacted as well if there was some sort of regulation?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Well, I would say two things. One, before I get directly to your question, it's important to recognize that I think it's broadly held that there are HFT strategies that are seen as beneficial. And I think the BlackRock report is quite constructive, and that's not just BlackRock but many people. So, even when you look at the revenue impact to, let's say, the mid case of 80:1 is $20 million to $26 million, that part of that number, and it could be a majority of that is seen as good for the market, right, in terms of the activities that they do. So, I want to make that very clear.

With respect to market making, I think if anything, we need more market making in this marketplace, in particular as you go down the market capitalization curve. So, if anything, I think you'll see strengthening of the market-making function in the years to come. The immediacy of the liquidity they provide to investors is a valuable component of the market. So, I have yet to hear anybody in any context that a market-making activity is bad for the marketplace. And I certainly stand by the thought that in the smaller and mid-tier stocks we have to do something to encourage more market making. And that's one of the prime discussion points for [ph] JOBS 2.0 (34:00), how do we bring more market-making into the marketplace?

<Q – Rich Repetto – Sandler O'Neill & Partners LP>: I would agree 100%, Bob. But, I guess, the question is if there – as investors look at NASDAQ, and if there is some, any types of controls or if there is any changes, they're looking at how could that impact overall volumes not so say that market makers aren't important across the cap spectrum and more needed but just that it could impact volumes even for electronic market makers?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah. Again, Rich, let's make clear we're talking about market making the way we are. These are people who are providing a two-sided market who always have to be on the adverse side of the investment decision, providing immediate liquidity to the marketplace and under our rules had to be within a certain percent of the inside market on a continuous basis, right? So I think in any construct you talk about, nobody is going to try to restrict that activity. Why would you, right? The market needs that.

<Q – Rich Repetto – Sandler O'Neill & Partners LP>: Got it. Okay.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: I mean...

<Q – Rich Repetto – Sandler O'Neill & Partners LP>: Thank you for the answer. Thank you.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: They're exposed continuously. This is a pure market making activity we're talking about.

<Q – Rich Repetto – Sandler O'Neill & Partners LP>: Understood. Thank you.

Operator: Thank you. Our next question comes from Bill Katz of Citi. Your line is now open.

<Q – Bill Katz – Citigroup Global Markets Inc. (Broker)>: Hi. Thanks very much. I had to jump off for a moment, so I apologize if you covered this or was already asked. But, from your definition of the HOTT, what from just an obvious perspective might you be excluding? And then secondarily, has the dialog with the regulators changed at all just given the greatest scrutiny following the release of the book?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah. So, I would say when you look at the HOTT definition, what's in the number which would be construed as good is certain activities with respect to what's traditionally known as HFT. So, for example, somebody who makes directional trading bets, somebody who's doing stat-arb, these functions would fit into this definition that we possibly have here. And it's unlikely that any regulatory focus would be on eliminating the ability to make a directional bet in the market. So, from that context the number could be overstated. We're not representing it is, but they're in that bucket.

The second side, on the other side is what Rich hit upon, right. The market makers are not included in this bucket and we have particularly left them out. They have strong obligations under NASDAQ OMX. They have to, as I said, maintain a two-sided market continuously, have to be within the inside market and have to be ready to take an execution whether they really wanted or not. So, that's a valid and it's a fundamental construct of the market.

And let's understand that NASDAQ was founded in 1971, was founded on market makers being the cornerstone of the growth of this market. So, you've got market makers excluded on the one side and then included in this bucket. There's a lot of activity that BlackRock and others would see as, in ourselves, is good for the market, but we didn't have any way to provide greater granularity.

The advantage of this HOTT approach, as I said in my prepared remarks, it's definable, it's measurable. You don't have to agree with it, but it's a clear way of trying to get away from this amorphous definition of what are we talking about here.

<Q – Bill Katz – Citigroup Global Markets Inc. (Broker)>: And then just what – from the regulatory feedback, has anything changed?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Sorry.

<Q – Bill Katz – Citigroup Global Markets Inc. (Broker)>: It's okay.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah. I mean, we're in constant conversation with the regulators. I don't want to speak for them, but I think it's on a normal state of discussion.

<Q – Bill Katz – Citigroup Global Markets Inc. (Broker)>: Okay. And again, just my follow-up, and again, I apologize if this was already covered. Just in terms of with that much closer now to [ph] 6/30 (38:05), stock has pulled a little bit on the controversy, how are you thinking about capital management priorities as you work down the debt?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah. I think it's important to recognize a hallmark in NASDAQ OMX is we execute very well. We do what we say we're going to do. So, when we announced the acquisitions, we said, we had to, obviously, focus on delivering the value to our investors on those acquisitions. And if we did that, we'll be able to de-lever. And if we're able to de-lever, then we'd be in a position to go back to a more aggressive capital return philosophy.

So, I'm proud to say that we've done well since we announced the deals. We're making progress. We're not quite there yet, and we're focused on the operational excellence right now, and as soon as we get to where we need to be, then we'll take that decision.

<Q – Bill Katz – Citigroup Global Markets Inc. (Broker)>: All right. Thanks for taking my questions.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Thank you.

Operator: Thank you. Our next question comes from Chris Harris of Wells Fargo Securities. Your line is now open.

<Q – Chris Harris – Wells Fargo Securities LLC>: Thanks. Hey, guys. So, Bob, thanks for all your color in the slide you laid out here on HOTT. Just kind of curious, when you guys looked at this, why did you decide on 60:1 as being the good metric as opposed to some ratio lower than that? And then wondering if you guys looked at these numbers, if you actually included the registered market makers and what would the numbers look like if that was the case?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah. Well, let me start by saying, we started with 100:1 and that NASDAQ uniquely in the U.S. put in a pricing scheme that basically had a penalty for those who were above 100:1. And if we look at the regulatory actions in Europe, what was contemplated and discussed, there was always around 100:1. So, we started with that. And I'd have to say for the team who spent many hours that was a lot of work and then one of the advantages of being the CEO, I said, well, why don't we do it for 80:1, and then we did that. And then late last week, I said, why don't we do 60:1. And then yesterday I said, why don't we do 40:1. And they said, well, boss, we'd love to do that, but there's no way we can get it done for this earnings call. So I think in the future we might show 40:1. And like I say, it is a bit of work. And if you look at all the assumptions there, this is not an automated process, so I compliment the team for getting this amount done.

So, on the second part of the question with respect to market-making, we haven't looked at it. I don't know if we can and to do it, it's clearly definable as we are, but I do want to say again then in any discussion I've had with any regulator in both the U.S. and Europe, market-making has never come into the conversation. We certainly see with the Volcker Rule that market-making was carved out. And if you want to use that as a model, you'll see that they recognized in that construct that market-making was fundamental. And any discussions I've had both with Congress and with the regulators in the last year to 18 months is to how to improve the market-making function. And as I said, the discussion around Jobs 2.0 is how we make market-making a key part of the success of the marketplace going forward. So I just don't think it's in the scope of any discussion at this point in time.

<Q – Chris Harris – Wells Fargo Securities LLC>: But, Bob, do you think a lot of the concerns people may have could be solved with just the speeding up of the SIP. And if you think that, what do you think the impact of that would be, and would you guys be supportive of that?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Well, that's a great question. The first thing that's out there that's incorrect is the SIP versus the prop feeds, it's apple and oranges, right? So, you have to understand they provide different data to the marketplace. So you can't say one replaces the other. You'd have to redefine what the SIP is at this point in time. The prop feeds provide the entire book for an individual exchange. The SIP provides the top and only the top for the bid or the offer. The bid could be coming from one exchange, the offer from the other, and you don't get any depth of the book there. So I'm always confused when knowledgeable people talk about the one versus the other because they are just in fact different.

The other piece of data which we'll talk about in more detail in the future is the performance gap between the SIP and the prop feeds is remarkably small. Obviously, we'll work with the SIP committee with respect to what information they want to put out. But if you look at the history of the SIP over the last two to three years, the focus has been on speed. We obviously, post-August, changed some of the focus to resiliency, but the entire focus was on speed in the SIP.

It's also important to recognize that SIP does a different function than the prop feed. And the SIP has to do an aggregation function. So when you compare the speed, that's also unfair, in that if I take in five prop feeds from five different execution venues then I have to write the code and run the process to pull that aggregation together. So the SIP is doing that for you. So when you talk about the raw speed of the SIP versus the raw speed of the prop feed, it's different. So it's different data, it's a different function. So that's a lot more nuance discussion than you commonly read about.

<Q – Chris Harris – Wells Fargo Securities LLC>: Thanks for that, Bob.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Okay.

Operator: Thank you. Our next question comes from Mike Carrier of Bank of America Merrill Lynch. Your line is now open.

<Q – Mike Carrier – Bank of America Merrill Lynch>: Thanks, guys. First question, just on some of the non-transaction revenue areas, I think last quarter when the technology revenues came in really strong, you noted some of the items that drove that. I just wanted to make sure when we look at market data, the index business, both of those definitely came in stronger. And then on the flip side, I would say the listing business, despite your gaining of IPOs and the number of companies and shares that are listed, it just seems like that stalled a bit. So, anyway, I just wanted to make sure on those – like three areas, if there is anything that you would point out either on the negative or the positive side.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: I'll just start with a – not answering the question but an important point. I think it's amazing that we passed $100 billion in assets under management. I mean, clearly when you think about NASDAQ OMX, I myself don't think of us as such a large player in the space, but it's been remarkable progress and another strong quarter for that group. With respect to the listing business...

<A – Lee Shavel – The NASDAQ OMX Group, Inc.>: Yeah, I think actually in the listing business we were really pleased with the 3% growth that we saw in that business. I think, Michael, if there were some areas that I think in the non-transaction side that we saw some declines, it would be in our Technology Solutions business particularly around the market technology revenues which, irrelative to the fourth quarter, it really had more to do with some accounting elements in our BWise business that contributed primarily to a $4 million reduction relative to the fourth quarter in that area as well as a seasonal drop in change request and advisory revenues from the fourth quarter, which were down about $7 million. But again, that's – typically, we see strength in the fourth quarter and not so much in the first quarter. And then we had a small drop in software-as-a-service revenues of about $2 million.

So I think if I were to isolate among the non-transaction revenues where you saw some declines relative to the prior quarter, that's where they would be. But again, we saw organic growth on a year-over-year basis. And within Corporate Solutions, we were down slightly from the prior quarter by about $1 million due to the loss of or the phase-out of some of the New York Stock Exchange partnership revenue, but that was offset by strength in our public relations business. The number of press releases were up, as well as the growth in Directors Desk. So, that's where I would focus on in terms of looking at the non-transaction revenue trends for the quarter.

<Q – Mike Carrier – Bank of America Merrill Lynch>: Okay, that's helpful. And then just as a follow-up, the color on the HFT or that segment of the market, that's helpful. I think when you look at sort of the two items that are out there, there's one is the debate on market structure, and there is the second one which is more the legal side. And obviously, the market structure is much more quantifiable and the legal side is not. But just given that the AG has been looking into this area, maybe the FBI, like is there anything that when you guys look at it, I mean, obviously you can only talk about NASDAQ specifically, but in terms of subpoenas or anything that you would be worried about or is it an ongoing thing where the market's always being investigated and there's nothing that you would say is out of the ordinary?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Right. I'll just talk quickly on the market structure and let Ed Knight answer the legal question. So, as I said in my prepared remarks, and we have 40% of this market that trades in the dark, and that's been a discussion ongoing. It's certainly our hope that as a result of some of this controversy, there's an acceleration of efforts to bring more of that market into the lit and transparent world. And certainly, early indications are that that will be some great opportunity for us. So we're clearly excited about that.

Ed, with respect to the legal?

<A – Ed Knight – The NASDAQ OMX Group, Inc.>: I guess what I would say – I'll make a couple of points, one is one of the beauties of electronic markets, it is a record that is created when you trade electronically. We are a self-regulatory organization. We are constantly surveilling our markets, working with FINRA, innovating in this area. We believe in aggressive surveillance and investigation of the markets to protect investors. We support other investigators around the world in all the markets in which we are active. There's virtually no regulator or investigator that we haven't worked with at some point in time. Most of those reviews are confidential, so we have a policy of not commenting upon them, but we are for a vigorous enforcement of the law with regard to these markets.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Thank you.

<Q – Mike Carrier – Bank of America Merrill Lynch>: All right. Thanks, guys.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Thank you.

Operator: Thank you. Our next question comes from Alex Blostein of Goldman Sachs. Your line is now open.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: How are you doing, Alex?

<Q – Alex Blostein – Goldman Sachs & Co.>: Great. Thanks. Good morning, everybody. So I just want to follow up on a couple of things I guess. On understanding that there's not a whole lot of tangible items right now on the regulatory front, but one of the topics that obviously is widely debated as well is a potential change to the maker-taker pricing structure, whether augmenting it slightly, or considering just other options for pricing all together. Clearly, the other big player in the space has been pretty vocal about it. What are your guys' stance on the issue? And I guess how would that impact the business?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Well, first, to understand that many markets that we compete in, we don't have maker-taker. In particular...

<Q – Alex Blostein – Goldman Sachs & Co.>: Sorry, just in the cash equities in the U.S., of course.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: What's that?

<Q – Alex Blostein – Goldman Sachs & Co.>: Just in the cash equities in the U.S.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah. We're talking about our experience and our success with markets where the maker-taker doesn't exist. So in the Nordic market, in particular equities, we don't have maker-taker. We certainly have traders that fit the definition of HOTT or HFT, whichever you want. And as you saw with the numbers, we've done fairly well.

So from a point of view of maker-taker, practically, we don't think it has any real impact on us. We'd have to see. Certainly, we look at the Nordics as a great reference point. But we also philosophically see that there is some value to provide incentive to the person who provides the initial liquidity into the marketplace.

The concept of somebody showing their hand first by putting an order into the marketplace and then giving optionality to the rest of the market to respond to that, the concept that that person should be paid or incentive to do that I think is a fair concept. So from a practical point of view, we're relatively agnostic from the philosophical point of view. We understand there's merit to paying somebody who's showing the hand first.

<Q – Alex Blostein – Goldman Sachs & Co.>: Got it. Thanks for that. And then just a follow-up, Lee, probably one for you. When I think about the pricing changes you guys have made, both in the market data side and the extra services side over the last quarter or two, obviously that's had an impact on revenues. Just trying to understand what's the appetite, I guess, for further pricing increase in both of those areas and, I guess, the capacity on the client side to handle more price improvements or price increases?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: So, one, we're not thinking in pricing increases. We think how can we better serve our customers and obviously deliver more value to them. And as a result of that, we lessen their burden. So, you see the increases we have in revenue is not us just charging more, it's us delivering more value to our customers. So, we continue to focus on that. We think there's certainly greater opportunity to better serve our customers in the quarters to come.

<A – Lee Shavel – The NASDAQ OMX Group, Inc.>: And I would just add, Bob, as an example of that, what we have achieved with NASDAQ Basic in terms of saving the industry a substantial amount of money is...

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: It's been amazing.

<A – Lee Shavel – The NASDAQ OMX Group, Inc.>:...huge. And so, we certainly launched that product. We wanted to get people connected to it and so some of the price increases there we still are saving our clients a substantial amount of money in creating value for them.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah. I mentioned the products going to come out was for eSpeed in the end of May, which will I think affect us more in the third quarter. Those will all increase revenue for us and, I think, somewhat impressively. But it will represent a net cost decrease for our customers. And certainly, as I mentioned, the fixed income world has its own set of challenges, and for us to come out with product and services that reduces their overall cost footprint, I think, will be very well received.

<Q – Alex Blostein – Goldman Sachs & Co.>: Got it. Great. Thanks for taking the questions.

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Thank you.

<A – Lee Shavel – The NASDAQ OMX Group, Inc.>: Thanks, Alex.

Operator: Thank you. Our next question comes from Akhil Bhatia of Rosenblatt Securities. Your line is now open.

<Q – Akhil Bhatia – Rosenblatt Securities, Inc.>: Hi. Good morning.

<A – Lee Shavel – The NASDAQ OMX Group, Inc.>: Hello. Hi. Good morning, Akhil.

<Q – Akhil Bhatia – Rosenblatt Securities, Inc.>: Good morning. Just a quick question on eSpeed. Can you talk about the market share trends you've seen since the acquisition closed? I think we understand that there's a new competitor in the on-the-run space. So, can you just talk about the market share trends?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Yeah. I think our market share has been relatively flat. We're gaining some momentum. We ran into a couple issues with the legacy data center and that set back our progress and we've been building back up. So, our market share is flat. We're not happy. We think there's opportunities. And as I'm referring to, I think our opportunities are the fact that we're going to come to market with a consolidated offering that meets their – a greater set of their needs across both the voice and the electronic world.

So, we have the unique ability to take some of the voice capability and put it into an electronic market at a significantly lower cost than we have today. So, I think that will then have some kind of side or ancillary benefit to our market share. The other thing not to be understated is the move to [ph] Carteret (54:22) is happening. It's happening basically in two weeks and we've got a lot of customers waiting for that to happen to then further engage with us.

<Q – Akhil Bhatia – Rosenblatt Securities, Inc.>: Okay. And then just a clarification. Lee, you mentioned in market data you had the $6.5 million of audit in the quarter. Was that all in U.S. or was there some in Europe market data, too?

<A – Lee Shavel – The NASDAQ OMX Group, Inc.>: I think the $6.5 million refers to both U.S. and European, so it's across all of our clients.

<Q – Akhil Bhatia – Rosenblatt Securities, Inc.>: Okay. Thank you.

Operator: Thank you. Our last question comes from Niamh Alexander of KBW. Your line is now open.

<Q – Niamh Alexander – Keefe, Bruyette & Woods, Inc.>: Hi. Thanks for taking my question. If I could go onto the market structure, too, help me understand, with the latency advantage that, I guess, part of the whole – the book sees this as latency advantage is unfair or whatnot and are you actually just trying to kind of eliminate it? If, for example, there was a new rule imposed to kind of have a minimum latency, would that significantly reduce your CapEx, because there has been quite a lot of spend and innovation in kind of reducing the time getting to all the different markets. I'm just wondering if that would significantly reduce your spend, your CapEx for a start and then maybe some of your running costs?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: What's the assumption you're putting out there, again?

<Q – Niamh Alexander – Keefe, Bruyette & Woods, Inc.>: No. I'm just asking a question. Like, if there were some minimum latency introduced, I guess, the SEC wants to kind of eliminate some of this latency advantage that's supposedly predatory. HFT traders have an advantage over slower traders. So, if there was some minimum time imposed, and would that significantly reduce the spend to kind of – that has been going on to reduce that latency?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Well, I would say this, and I'm thinking off the top of my head, but from the exchange side, it probably would, but understand from the customer side, there's always going to be a race to the speed bump, right? So, now there's a race for the market. If there's a speed bump up, then there's going to be a race to the speed bump, and the person who gets to the speed bump first then has to be logically put first in that queue. So, putting some type of delay in terms of how the lit markets work doesn't really change much. I mean, from our side, if they want us to have a slower system, then obviously we could spend less money doing it, but I don't think it's material.

<Q – Niamh Alexander – Keefe, Bruyette & Woods, Inc.>: So, the HOTT, I guess you're saying it's not material. I'm just trying to understand like if there has been quite a lot of spend on reducing the latency, which is a discussion in the book about the latency. Is it really just 1% of the business or just you think that other customers aside from HFT would want to continue to have you spend to make sure they can kind of – can trade faster and faster?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Well, we certainly do spend a fair bit of money, and we take a lot of pride in the speed of our technology. But, I would say this. The focus for the last number of years was really the elimination of the tails. The customers want to see a consistent execution experience against a range of volume outcomes. And so, we do that and we're proud of that, so we look at it very closely. We have a great engineering team, and I believe that regardless of what happens in the market as the market evolves, to have great engineering capability is a fundamental advantage of NASDAQ OMX, and we intend to keep that. So, I don't see us changing our expense profile based upon any market structure changes.

<Q – Niamh Alexander – Keefe, Bruyette & Woods, Inc.>: Okay, interesting, thanks. And if I could just lastly, NASDAQ Basic, the market data and that you'd advertise, is that something that's kind of – it's almost competing with the tape data, is that fair? And help me think about the risks to maybe your tape share or the tape data if NASDAQ Basic continues to gain more traction?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: Well, obviously it does. I mean, well the value proposition is a customer can get NASDAQ Basic, it's not representing a complete set of data like the SIP would, but it's near enough and it is at a significantly reduced cost. At the time of order entry, then you obviously have to go to the SIP. But if you're looking in for reference purposes, certainly in a retail environment, it's got a 90%-something in correlation to the market. So it's – as you can tell a very effective product. And so, if somebody leaves the SIP and goes to NASDAQ Basic, then it's a net positive to us.

<Q – Niamh Alexander – Keefe, Bruyette & Woods, Inc.>: But I guess the brokers have been arguing for quite a few years now, quite a few years, the regulators that the tape pie of revenue should be reduced and they shouldn't be paying as much. I'm just wondering if there's some risk here that NASDAQ Basic, if it's too successful, does it kind of support the argument that the tape fee should start to come down?

<A – Bob Greifeld – The NASDAQ OMX Group, Inc.>: I haven't heard that. But certainly, as NASDAQ Basic grows, there's less revenue in the pie. But with NASDAQ Basic, we get 100% of that revenue. So it's a smaller number, but we're getting a larger percent of it.

<Q – Niamh Alexander – Keefe, Bruyette & Woods, Inc.>: Okay. Fair enough. I'll follow-up later. Thanks.

<A – Lee Shavel – The NASDAQ OMX Group, Inc.>: And I think the important thing to understand is that we obviously have implemented this strategy with the expectation that this is a net positive for us factoring the transition of tape revenue into NASDAQ Basic revenue.

<Q – Niamh Alexander – Keefe, Bruyette & Woods, Inc.>: Okay. Fair enough, Lee. Thanks.

Operator: Thank you. And at this time, I'd like to turn the call back to Mr. Bob Greifeld for any closing remarks.

Robert Greifeld, Chief Executive Officer & Director

Thank you. All right. So, again, we're obviously very proud of this quarter. We have delivered record results. Important to note, these record results were done in the context of increased spending. You heard Lee mention, GIFT spending is up, so we're proud of the fact that we're able to serve the long-term masters through our GIFT initiative, and also meet the investors' needs in a given quarter. So the strategy we have put in place over the last decade is working. In many ways, it's accelerating, so we're proud of that.

With respect to our definition of HOTT, we don't expect it to end any debate of what HFT is, but this has the advantage of being measurable and definable. As you can see, the numbers are small within the context of NASDAQ OMX. I do want to repeat that within this HOTT definition there clearly is activity that is beneficial for the market. I think that is recognized by both the buy side, the regulators and certainly by us. So, from that point of view, those numbers are I think overstated.

With respect to what's not in there is market-making, and we had a couple questions on that, but I'll repeat again. NASDAQ was founded in 1971 on a market maker foundation. It's fundamental to liquidity provision in the marketplace. If anything, I think you'll see that as more important part of the marketplace going forward as opposed to less important.

And I do want to concentrate on the fact that we have been advocating for evolution of the markets for a number of years now. We have been somewhat frustrated by the fact that the pace has been slow. We certainly feel increased optimism that with this publicity we can have maybe an acceleration of the evolution in the market. And with 40% of the market trading away from the lit markets, there is certainly great opportunity for us, and I know our team is excited and we're working on a couple really exciting things now that I think we can use to really bring volume back to lit markets.

So, very strong quarter. We're using that as excitement to continue to do what we do and do well. We're executing very well, so we're proud of that. And we look forward to engaging with you folks during the quarter and to the next quarterly calls. So, thank you for your time.

Operator: Ladies and gentlemen, thank you for participating in today's conference. This does conclude today's program. You may all disconnect. Everyone, have a wonderful day.