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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Nasdaq Third Quarter 2016 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 is being recorded.

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

Edward P. Ditmire

Vice President-Investor Relations, Nasdaq, Inc.

Good morning, everyone, and thank you for joining us today to discuss Nasdaq's third quarter 2016 earnings results. On the line are Bob Greifeld, our CEO; Michael Ptasznik, our CFO; our Chief Operating Officer and President, Adena Friedman; Vice Chairman, Hans-Ole Jochumsen; Ed Knight, our General Counsel; and our 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 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, Nasdaq, Inc.

Thank you, Ed. Good morning, everyone, and thank you for joining us today to review another quarter in which Nasdaq set several financial highs, as well as discuss progress on our key initiatives and our investments.

What is interesting and satisfying to me about this quarter is the balanced model we have created and a strategy which focuses first and foremost on serving our clients' needs, and this continues to deliver. As we have proven quarter after quarter, when we serve our clients well, we are privileged to be able to both invest in our future and serve our shareholders well.

A principal way we achieve this is our focus on technology leadership in which we can lever our expertise, our relative advantages in a manner that benefits clients and creates real opportunities for growth across our businesses. I will focus my remarks today on these central points and how they manifest in our results and drive our efforts as a financial technology company.

During the quarter, Nasdaq delivered net revenues of $585 million, non-GAAP operating income of $268 million and non-GAAP net income of $154 million, which set all-time highs, while non-GAAP EPS of $0.91 tied our record high.

When you look at the quarter, to me, what is most interesting about our performance is our continued consistent march in generating organic growth across our non-transaction business segments. Despite lower volumes in the transactional environment, the diversity, resiliency and the complementary nature of our model continues to drive us forward.

Just to highlight for everyone on this call, again, regarding the significance that our model plays in our results, post the ISE acquisition, over 75% of our net revenues during the third quarter of 2016 came from subscription and recurring revenues, a record $441 million; quite a remarkable testament to the evolution of this franchise.

During the quarter, we saw a 5% organic net revenue growth across the non-trading segments, which provide the vast majority of the subscription and recurring revenues, with the biggest contribution to our growth coming from the Technology Solutions segment with 10% organic growth, truly outstanding.

In addition to strong organic growth progress, we also continued to successfully integrate the four acquisitions made in 2016, which are right down the center of our bowling alley. We've already begun to deliver significant accretion to our shareholders from these acquisitions. I will come back to that in more detail later in my remarks.

As I mentioned, we are maniacally focused on the client, their problems and pain points, and what we can do to solve them and unlock new opportunities.

So, now, I want to turn and highlight on how this focus is responsible for generating opportunities in our non-transaction businesses and driving the growth we saw during the quarter. As I pointed out early on, one of the great advantages Nasdaq has is in technology leadership which provides us with a variety of options for responding to our clients' complex challenges and offering new and better solutions. Clearly, one of the best examples of this in action is in our Market Technology business, where over the past several years, we have shifted our strategy from a product-centric approach to a more holistic solutions approach.

The investments we have made to strengthen SMARTS surveillance, post-trade and risk and compliance offerings have resulted in strong growth and we continue to see strong uptick across these businesses during the third quarter as our clients continue to turn to us for these mission-critical solutions.

On the surveillance side, we clearly are the beneficiary of industry trends towards more transparency and regulation, especially in Europe where the Market Abuse Regulation, MAR, came into play at the beginning of July of this year.

Importantly, we see also other regions are continuing to bolster the regulatory requirements with regard to surveillance and compliance and also that the requirements on market participants are extending beyond the sell side to impact the buy side directly, something we've worked very hard to position the franchise for with our buy side SMARTS offering.

Certainly fundamental to our approach in the Market Technology business has been the introduction of the Nasdaq Financial Framework. We announced this in May of this year. This financial framework is truly a game changer. It provides a unifying framework for all our products and importantly allows us to deploy innovative capabilities such as the blockchain. This is a leading example of how we are in lockstep in an integrated manner with the balance of our products as we integrate this Nasdaq Financial Framework.

Staying within our Technology Solutions segment for a moment, I want to highlight the progress we've made in our Corporate Solutions business during the quarter. When we look at Corporate Solutions, we have been on a mission to add greater levels of value for our clients through product enhancements, new technology and scale.

Key to our efforts are the integration efforts of the Marketwired and Boardvantage businesses and our ongoing focus to provide our clients with more robust solutions like IR Insight. We have migrated 80% of our legacy platforms client base with over 3,800 users on the new platform to date. While we still have more work left to do, we do believe we have turned an important corner in making this business both more effective and now efficient. This is very encouraging and certainly indicative of the dedication by this very talented team to our clients and speaks well of our ability to deliver in the quarters to come.

Now, clearly, one of the businesses that benefits from our success in Corporate Solutions is our Listing Services business. Growth in Listing Services during the quarter continued to be impressive. In fact, I would say that our listing franchise has never been stronger. This is evident in both our U.S. and Nordic franchises. In the U.S., I'm very pleased to report our competitive position continues to increase. Year-to-date, we've achieved an outstanding 74% win rate in IPOs, welcoming Nutanix, the Trade Desk and Talend in the third quarter.

Additionally, in October this year, the largest energy IPO of the year listed with NASDAQ, Extraction Oil & Gas. In switches, we've welcomed 16 companies thus far in 2016, with a combined market capitalization of $42 billion from our competitor, bringing our total switch market cap to $850 billion – $1 trillion is not far away – since regulatory changes opened this channel up in 2002. In ETP listings, we've grown our issue account 48% year-over-year.

The Nordics, in many ways, is even more impressive. We're very proud of the entrepreneurial companies which continue to choose NASDAQ as their listing home. There are 57 new company listings to date through September 30, the most of any European financial center. For the first time in my memory, the Nordics have outraised or outlisted London, certainly a record performance.

And this does follow a great year last year, where we had 91 listings. The Nordic market also continues to gain attention from companies domiciled outside the Nordics. When you look at this together, it's evident that the platform we have built that addresses not only capital-raising needs but also provides companies with mission-critical solutions and intelligence solutions that supports our companies through their entire life as a public company is resonating in the marketplace. While the non-transactional businesses continued a very consistent, healthy expansion, it should never be forgotten that our suite of leading trading marketplaces are absolutely fundamental to our strategy.

To that effect, looking into our most foundational trading business, U.S. Equities, we had a bit of a mixed trend in terms of share and capture in the third quarter. I am pleased to report that average capture, in particular in U.S. Equities, showed sequential improvement in the third quarter, but market share was marginally lower. The biggest driver of changes was industry mix, in particular, more off-exchange trading. In particular in Tape C or Nasdaq-listed securities, where we are obviously heavily overweight.

In this relatively low volatility, low volume environment, we tend to see lower market share, but this is somewhat mitigated by a tendency to see an increase in capture. In addition, we tend to see increased revenue from our off-exchange trade reporting facility, the TRF. Our TRF serves over 90% of this market, which is currently around 35% to 40%. So, those are mitigants to the decrease in the volatility and the volume in the market.

Now, when you look at our performance, we continue to enjoy very strong lead in Nasdaq-listed Tape C securities where in the third quarter for example, we matched 28% of overall volumes, and we represented 64% of volumes, including our TRF off-exchange trade reporting services, which leaves only a combined 36% share for every other SEC-regulated exchange for Tape C.

We continue to see good opportunity to improve our share in the coming periods, especially given that our competitive position relative to the other exchanges remain strong, and we have important innovations in the pipeline such as our extended life order, or ELO.

As I mentioned earlier, we have completed four acquisitions this year, and what's most impressive is that our teams have done an outstanding job in incorporating the talent, resources and technologies these companies bring to Nasdaq.

Strategically, these acquisitions play to our core strengths or down the center of our bowling alley, as I like to say. They maximize our chance for success. This is the first full quarter with all four of the acquisitions under the Nasdaq umbrella, and they are already delivering meaningful accretion to our shareholders.

Let me share with you some of the highlights on our progress. We closed the transaction of the International Securities Exchange, ISE, in June. This was significantly ahead of schedule, and since that time, we have been executing on our objective to have ISE lever the best technologies and features from both Nasdaq and ISE to serve our clients.

Our continued focus on our clients throughout this process is important to us, and I'm pleased that we've continued to earn from these customers market share at industry-leading levels within 1 point or 2 points of the roughly 40% share that Nasdaq and ISE separately totaled in the periods prior to the combination. In addition, we've been able to realize $15 million in run rate synergies for both ISE and Nasdaq CXC at the end of the third quarter, and these acquisitions are accreting to our shareholders ahead of schedule.

In our Corporate Solutions business, we closed Marketwired and Boardvantage in the first and second quarters respectively. We continue to make strong progress integrating these businesses into our offering. These acquisitions are very appealing in that they both significantly expand our base of corporate customers, bringing our total corporate customer base to approximately 18,000 clients, and as we integrate them, will enable us to accelerate the depth and the breadth and speed at which we innovate and bring exciting new products to PR distribution, governance and board portal space.

Overall, I'm very pleased with the progress made so far this year. There is still work to be done, but as I said, we have turned the corner in terms of how we operate the business and we are very well-positioned to deliver meaningful organic growth in the future.

As you can see by the examples I have highlighted, our model, driven by a diverse mix of businesses, provides us with the flexibility and opportunity to both explore and execute on a variety of initiatives. To give you an example, year-to-date, we have seen organic growth, coupled with strong operational focus on expenses, synergy realization and sound capital deployment and returns, generated 8% non-GAAP EPS growth in the first nine months of 2016, in addition to a significant growth in our dividends.

This EPS and dividend growth in turn formed the foundation for an impressive 29% total shareholder return in the 12-month period ending September 30. Now, certainly, when it comes to how we look at investing in our future, organic growth is our first priority and our preference. We have a robust process for vetting growth concepts internally at Nasdaq through our R&D program and have a strong track record to date with our organic initiatives, some of which I will highlight now.

Clearly, one of the more outstanding initiatives we have undertaken and something we are very proud of is our launch of NFX in 2015. The increasing traction NFX has seen in the energy market over the past year represents a positive vote by market participants and our clients in a more efficient, cost-effective and responsible alternative was and is needed.

To highlight our progress, we set the following records in September. Monthly average daily volume was 151,000 contracts. We set new Brent and WTI volume marks each over 70,000. Open interest reached a new high before the September roll of 1.2 million contracts; truly impressive. So, perhaps more importantly, as we look forward, our client onboarding backlog, including merchants and utility end users, is at a record level. Good days to come.

So, while we don't consider that NFX has achieved success yet and certainly isn't guaranteed to do so, we can see clearly how continued growth in the coming periods could establish it firmly as a very important and valuable asset.

Another significant investment we have made, which has fulfilled a previously untapped need in the marketplace, is our effort to transform the private market. Overall, we are pleased with our progress with a 175% year-over-year increase in the number of liquidity events facilitated. This is a great example of how we are exploring ways to apply disruptive technology like the blockchain and market expertise to support our clients.

Our future depends on how well we see around the corners and apply technology in innovative ways to the benefit of our clients. To this end, we still currently have a number of use cases in our pipeline across all our businesses, and we're excited about the opportunities that leveraging these technologies represent for our clients and our businesses.

For example, in September, a new data product suite called Nasdaq Trading Insights designed to help traders better understand how they perform in the market, how the market behaves and how they can adjust their strategies to be more successful. It combines proprietary data with advanced analytics and machine learning to provide insights and is the first commercial solution to come out of our Information Services innovation lab which brings together inside and outside technologies, data scientists, software engineers, and business experts. It is a great example of the kinds of solutions that we're developing today that will harness disruptive technologies and the kind of innovation that you will certainly see more of from Nasdaq in the months to come.

In closing, I have talked a lot today about the progress we are making to serve our clients through strategic acquisitions, organic growth initiatives, and through the effective use of capital. But in reality, we view our job as much, much simpler than that. Our job is to listen to our clients and respond to them and to market stimuli. And this quarter is really a testament to our ability to do that effectively on a multitude of levels across this franchise. I have no doubt that the strength of our model, coupled with our ability to apply technology to benefit our clients will certainly drive this franchise forward for the remainder of this year and into the future.

Now, I will turn the call over to Michael to review the financial details.

Michael Ptasznik
EVP & Chief Financial Officer, Nasdaq, Inc.

Thank you, Bob, and good morning, everyone, and thanks for joining us today. My commentary this morning will focus on our non-GAAP results. Reconciliations of U.S. 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.

I'll start by reviewing third quarter revenue performance relative to the prior-year quarter as shown on page 5 of the presentation and organic growth from page 6. The 11%, or $56 million increase in reported net revenue of $585 million consisted of $58 million in net revenues from our 2016 acquisitions of ISE, Marketwired, Boardvantage and Nasdaq CXC, and organic growth in the non-trading segments of $17 million, or 5%. This was partially offset by an organic decrease in Market Services net revenues of $20 million or negative 10%, resulting principally from the exceptionally strong multi-year highs in industry volume in the prior-year period.

I'm now going to go over some highlights within each of our reporting segments. All comparisons will be for the prior-year period unless otherwise noted. Information Services on page 7 saw $2 million in organic revenue growth and a $3 million increase related to the ISE and Nasdaq CXC acquisitions. Data Product revenues increased 6% including organic growth in proprietary data product revenue, the inclusion of revenue associated with the ISE and Nasdaq CXC acquisitions, as well as higher audit collections.

Index Licensing and Services revenue saw a $1 million decline, primarily due to a decrease in the value of underlying assets associated with non-ETP Nasdaq-licensed products and lower fees on derivative products that license Nasdaq indices due to lower volumes. The operating income margin declined modestly in the third quarter to 71% from 73% in the prior year due principally to certain temporary expenses, including those associated with new product initiatives.

Technology Solutions revenue, as shown on page 8, increased $36 million, reflecting a $22 million contribution from the acquisitions of Boardvantage and Marketwired, and a $13 million or 10% organic increase. The operating income margin was 18%, up from 15% in the prior-year period.

Corporate Solutions revenues increased due to the impact of the two acquisitions. Organic revenues were unchanged, which is an improvement from modest declines in recent quarters.

Market Technology revenue increased $14 million, or 24%, primarily due to increased revenues from software licensing and support contracts as well as surveillance products. New order intake was $49 million in the third quarter and the period end backlog finished at $738 million, unchanged from the prior year.

Listing Services, on page 9, saw a $2 million, or 3%, organic increase in revenues, driven primarily by an increase in Nordic listing revenue due to new company listings.

Market Services net revenues on page 10 saw a $33 million increase from the acquisitions of ISE and Nasdaq CXC, partially offset by a $20 million organic decline, due mostly to the tough industry volume comparable in the prior-year period, netting to a $13 million increase. Market Services operating income margin totaled 54% versus 55% in the prior-year period.

Equity Derivatives Trading and Clearing net revenues increased 31%, primarily due to the ISE acquisition and higher U.S. market share at legacy Nasdaq markets, partially offset by lower industry trading volumes. Cash Equity Trading net revenues decreased 12%, primarily due to lower matched market share, industry volumes in U.S. average capture, partially offset by the inclusion of revenues from Nasdaq CXC.

Fixed Income and Commodities Trading and Clearing net revenues decreased 22% from the prior year, due primarily to declines in U.S. Fixed Income and Commodities revenues, as well as the impact of trading incentives on NFX revenues. And you'll note that we've renamed Access and Broker Services to Trade Management Services to better reflect the broader nature and scope of services these revenues represent. And revenues here increased 17% due to inclusion of revenue from ISE as well as increased demand for connectivity solutions.

Turning to page 11 to review expenses. Non-GAAP operating expenses increased $41 million. This increase included $29 million in expenses from our acquisitions and $13 million, or 5%, in organic growth, excluding $4 million to $5 million in the quarter of acquisition synergy benefits.

Bearing in mind that Q-over-Q expense comparisons often have significant volatility due to things like changes in the performance-based compensation accruals or non-recurring items that don't meet the qualifications for a non-GAAP exclusion, I'd note, through the first nine months of 2016, organic expense growth has been approximately 3%, in line with the same organic expense growth rate we saw in the full-year 2015 period.

Turning to slide 12, our revised 2016 non-GAAP operating expense guidance has been narrowed to $1.22 billion to $1.24 billion, or a 4Q range of $323 million to $343 million. This is above the 3Q 2016 level. But please keep in mind that there are typically seasonal differences in the 3Q and 4Q expense run rates. For example, the third quarter typically features lower marketing, professional services, and travel expenses and some seasonal benefits in compensation.

Non-GAAP operating income increased 6% in the third quarter of 2016 and decreased 6% on an organic basis. Net interest expense was $36 million in the third quarter of 2016, an increase of $9 million versus the prior-year period, reflecting the additional interest expense from our recent bond offerings.

The non-GAAP effective tax rate for 3Q 2016 was 34.2% and within our unchanged 33% to 35% full-year guidance. Non-GAAP net income attributable to Nasdaq for 3Q 2016 was $154 million or $0.91 per diluted share compared to $151 million or $0.88 per diluted share in the third quarter of 2015.

Now, moving on to cash flow and capital, please turn to slide 16. We repurchased $55 million in stock during the third quarter if 2016, bringing our total buybacks to $100 million in the first nine months of 2016.

As of September 30, 2016, there is $429 million remaining on the board repurchase authorization. Through dividends and repurchases, Nasdaq returned nearly $250 million in capital to shareholders year-to-date in 2016.

And finally, while we don't have Ron on the call with us today, I'm sure he is listening and I just want to thank him for the great team that I've inherited, and for the immense support that he's provided me as I've transitioned into my role here at Nasdaq.

And with that, I thank you for your time, and I turn it back over to Bob.

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

Thank you. Operator, I believe we're ready for questions.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Rich Repetto with Sandler O'Neill. Your line is open.

Richard H. Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Yeah. Good morning, Bob. Good morning, Michael, and congrats on the quarter and the record performance in the non-trading segments.

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

A

Thank you, Rich.

Richard H. Repetto
Analyst, Sandler O'Neill & Partners LP

Q

So, I guess the first question is on the expenses. I see the seasonal increase. I've been looking at expenses all morning on this. And the only question I would have is that you're well ahead, or aggressively started on the synergies. So, do you expect – how do you get the rest of the – I think it's $23 million of the total $60 million? How should we think about your achievement of those over the next year to 15 months?

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

A

Well, I would say, one, Rich, as compared to when we announced the deal, we've obviously have increased confidence that we're going to get there, but we're not prepared to be more granular with respect to the exact timing. So, we're well underway. We still expect to have both positive and negative surprises as we move along. But we know we're going to get to the end state.

Richard H. Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Okay. And then my one follow-up would be, Bob, you addressed a lot on the equity market share. It's still just slightly up in 3Q and volatility has improved. But, I guess, turning also to options as well, when you look at the ISE's market share that, I think, is at a low or record low. And then, you have the CBOE-Bats pending merger. So, how do you think – the market share has been drifting off there. I know it's, again, a small part of your revenues but I guess, maybe in more detail the steps you're taking to address the share issue.

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

A

Yeah. So, I would say this, one is, I said on a prior call, we're managing the market share on a consolidated basis. We have a number of licenses. They're all important to us and we'll definitely take certain actions which have to have a positive impact on one of the license and a partially negative on the other. So, I would direct you to look at the combined market share and I made reference to that in my comments there.

I'd also make mention of the fact that, we certainly have seen with the OCC changes fewer dividend trades, strategy trades. So, I think, that has had a one-time impact on the market share going forward. And in terms of where we are, we certainly believe that complex order flow is an increasing part of the market going forward. And we have the leading position. We're going to continue to invest in that and we feel we will benefit from that trend line.

Richard H. Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Okay. Thank you.

Operator: Our next question comes from Chris Harris with Wells Fargo. Your line is open.

Chris M. Harris
Analyst, Wells Fargo Securities LLC

Q

Thanks. Hoping you guys might be able to talk to us a little bit about how you think the CBOE for Bats deal will impact the industry and, in particular, what you plan to do with ISE.

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

A

Yeah. Good questions. So, certainly, we think the deal makes industrial logic, makes sense. I think it will certainly provide them synergy opportunities and I think it represents a return to their investors. We think, strategically, it doesn't change much. We're tough competitors with both CBOE and Bats today and we think that will continue there.

So, we're happy, obviously, to have Bats and CBOE in a public forum and represent a rational competitor. And we run an efficient marketplace, so the way we look at the competition against different players where efficiency is important is something we welcome. And we also know strategically we have the scale so we have the ability to lever more flow against our highly efficient platform. So, we feel good about that.

So, the options market is something we believe in. We think it's going through a down cycle with respect to overall volume trends, but we see that growing in the future. And as previously highlighted, we think complex is going to be an increasingly important part of the marketplace. And certainly, our job with ISE is to get through the transition as quickly as we can. And as I've said, we've made great progress on it, we've got a lot of work to do, but we've got a very talented team focused on it and I think you'll see us achieve that in a rapid pace.

Chris M. Harris
Analyst, Wells Fargo Securities LLC

Q

Thank you.

Operator: Our next question comes from Ashley Serrao with Credit Suisse. Your line is open. Ashley, your line is open. We'll move on to our next question from Dan Fannon with Jefferies. Your line is open.

Daniel Thomas Fannon
Analyst, Jefferies LLC

Q

Thanks. Can you expand upon some of the strength in Tech Solutions? Certainly in the quarter, we've had a couple of quarters in a row that being the primary source of growth, and then we're heading into the seasonally typically stronger period of the year. So, I guess any little guidance in terms of thinking about the fourth quarter as well, will be helpful.

Adena T. Friedman
President & Chief Operating Officer, Nasdaq, Inc.

A

Sure. This is Adena. The Market Technology business continued to have a very strong quarter in terms of new sales in our surveillance business, in our GRC solutions to the corporate, as well as continued growth on the core business. Some of that is coming from the full quarter effect of the [indiscernible] (32:23) deal. But some of it is also just other contracts coming online and some short-term, what we call CRs, or short-term development revenues that we had in the quarter.

As we look at the fourth quarter, you're right that the fourth quarter tends to be our seasonally strong quarter both in terms of sales as well as on short-term revenue. So, we would anticipate that seasonality would continue to occur. So, we just are seeing really good strength across the business right now.

Daniel Thomas Fannon
Analyst, Jefferies LLC

Q

Great. And then I guess just a follow-up on that deal. So, the margin kind of in that segment was, looks like, flat quarter-over-quarter. Do you still anticipate that to kind of continue to grind higher and kind of what's a reasonable framework to think about when you – or targets for that segment?

Adena T. Friedman
President & Chief Operating Officer, Nasdaq, Inc.

A

Sure. So, the Technology Solutions business, as a reminder, includes both Corporate Solutions and the Market Tech business. And you're right. We are seeing that we've had a nice lift in the margin year-over-year quarter, and quarter-over-quarter from Q2 to Q3 is relatively stable. So, we are continuing to find opportunities to grow the margins across that segment. As we've mentioned before, we do have a 20% target, and we gave that target out around a year ago. So, we are marching towards that target and we continue to see progress there.

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

A

I'd also would highlight the fact, and I mentioned it on the prepared remarks, the fact that Adena and the team are completing the integration of IR Insight to simplify their mission, and certainly, it will narrow the focus, and I think, also help contribute to margin expansion as we get into 2017.

Daniel Thomas Fannon
Analyst, Jefferies LLC

Q

Great. Thank you.

Operator: Our next question comes from Ken Hill with Barclays. Your line is open.

Kenneth Hill
Analyst, Barclays Capital, Inc.

Q

Hey. Good morning.

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

A

How we doing, Ken?

Kenneth Hill
Analyst, Barclays Capital, Inc.

Q

Doing good. Just a question here on the data side I was hoping you guys could touch on. So, specifically, hoping you can provide an overview of some of the recent changes on the SIP, and then also your ability to charge for premium services like Ultra alongside of that. It seems like the upgrade definitely has implications for the industry from a speed perspective. But then also the read from some of the industry folks, it seems like they're trying to take a little bit more issue with some of the premium charges associated with things like Ultra longer term as market data costs move higher for them. So, I'm just hoping you could kind of walk through how you're seeing that area right now.

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

A

Yeah. Let me start by complimenting the team, in that the performance of the SIP is beyond what we had on the drawing board, and we're significantly below 50 microseconds. You might say 20 microseconds or 30 microseconds. So, that represents, really, I think the top technological achievement in the industry right now. So, we're proud of that. I think it's better for the industry.

It's also important to recognize that our proprietary data feeds are first and foremost about content. Speed was always a secondary concern. So, there is unique content in our proprietary feeds that you do not have in the SIP.

Adena T. Friedman
President & Chief Operating Officer, Nasdaq, Inc.

A

Yeah. I would add to that. I think that we would look at the proprietary feeds as providing additional value in terms of the depth of market. That's really the primary reason why people buy those feeds in addition to the feed. So, they're able to get it in a machine-readable format that allows them to make complex order routing decisions, algorithmic decisions in terms of their interaction with the market that go beyond what the basic feed provides, through the UTP feed. So, we are very pleased with the performance of the SIP, and we think that it is a great benefit to the industry. But we also see it as complementing the proprietary offerings that we have.

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

A

Yeah. And with respect to whatever controversy you're speaking to, it's important to know that the SIP, while we're providing the technology, is not governed by Nasdaq. It's an industry initiative. So, the pricing associated with the SIP is not a Nasdaq decision. It's a SIP committee decision.

Chris M. Harris
Analyst, Wells Fargo Securities LLC

Q

Got it. Okay. Appreciate all the color there. Thanks very much.

Operator: Our next question comes from Brian Bedell with Deutsche Bank. Your line is open.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Good morning, folks. Thanks. Maybe, Bob, if you can talk a little bit about the NFX strategy just, once again, in terms of how you feel that's progressing and what the EPS drag is? I know the incentives are I think up a little bit. And just if you can remind us at what point do you want to see more progress in that before you curtail the strategy?

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

A

Okay. So, I would just start by saying with respect to NFX, it's important to recognize that we get the publicity and it has our name in it, but this is a industry effort. This was customers coming together saying they want to do something to change the duopolistic or monopolistic practices of vertical monopolies. And so, we responded to that and we have been down the road before, so it's important for us not to just be engaged with happy meetings but the customers had to put real skin in the game to launch this thing. And they've done and they've come through.

So, as we stand here today, our progress is certainly more significant than we would have planned for at this point in time. And as I mentioned in my comments, the onboarding of new customers is at a record level. What I didn't mention is we have additional large industry participants who want to become part of the partnership, and I think the partnership will expand to allow them in.

So, we're living in happy times, where there is a lot of inbound. So, our success today is very strong. The inbound, as a forward indicator, would say there is more success to come. But we remain quite focused and we know that while we've had great success, we need to get a higher level of success in order to have what I call a definable asset.

So, I would say this, Brian, there is zero, and I mean zero, thought with respect to the last part of your comment about us thinking about curtailing it. This is a thing that's expanding and we hear – and our customers are very excited about what's being created.

Michael Ptasznik
EVP & Chief Financial Officer, Nasdaq, Inc.

A

Brian, the EPS effect is just $0.02 on the quarter.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

$0.02, okay. And that's a good run rate for future quarters in this project?

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

A

I think you'll see in 2017, that has a good opportunity to narrow. And what we have is what I'll call policy but a loose policy is when we have double-digit market share in a given instrument then we tend to work with our market committee and decide what is the proper price at that point in time. And as we've said, our target rate as we get fully established is in and around $0.60 a contract.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.
Q

Great. Okay. Great. And then, maybe just a question for both Bob and Michael, just if you can talk a little bit about what you're thinking for the longer term strategy in Canada with the Chi-X acquisition in that market. Is that something you – is Canada a market where you think you might, in a variety of ways, get much better penetration and focus longer term?

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.
A

I do like the fact you directed it to Michael, as our Canadian sitting here at the table. So, I'll start and Adena can help and Michael is always free to chime in. So, I would say this, and it's not specific just to Canada. Our brand value and the listing game is a global brand, and we see it having pull in the Nordics for countries in the rest of Europe and outside Europe, and you see that same attraction in Canada.

So, our listing franchise is incredibly strong, and certainly I think you can reasonably see that there is ways we can use that not just in Canada but in other parts of the world. So, that's certainly part of our plans going forward. But we have to do that intelligently, and what I like about what's happened in the Nordic, it's grown organically as people realized how good the Nasdaq market is in the Nordics and we plan to move along.

So, we are very happy with the progress of our Canada operation today. We realize it's early innings and our plans will become more comprehensive as time marches on.

Michael Ptasznik
EVP & Chief Financial Officer, Nasdaq, Inc.
A

So, I'll throw in, especially because I know that there'll be some – my Canadian are friends still listening in on this call, but the only comment I would add to what Bob said, he talked about the brand and the capabilities. What I've seen here is the numerous capabilities and the different products and services that we have here at Nasdaq, whether it's in the Corporate Solutions area or in multiple areas that we have from a technology capability standpoint I think will be very effective and will be welcomed by Canadian customers and the Canadian marketplace.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.
Q

And so do you plan on getting traction in some of the Corporate Solutions products in Canada as well?

Adena T. Friedman
President & Chief Operating Officer, Nasdaq, Inc.
A

Well, as with the acquisition of Marketwired, we do have a large group of Canadian clients at this point. It was their primary market. And therefore, we have the opportunity to cross-sell other services into those clients, and it has become a larger part of our strategy. But even before that, we did have a lot of Canadian clients just using our investor relations services.

So, we have a nice presence in Canada now. We have a larger office there, and we certainly see opportunity to continue to grow the Canadian marketplace for Corporate Solutions.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Great. Thanks so much for the color.

Operator: Our next question comes from Chris Allen with Buckingham. Your line is open.

Chris Allen
Analyst, The Buckingham Research Group, Inc.

Q

Good morning, everyone. I wanted to ask a little bit more about market data. I might have missed it. I was wondering if you could give any color in terms of audit fees in the quarter.

And then there's been some recent worries about the trajectory of market data. FactSet noted on their call this lower number of U.S. screens as kind of some hedge funds have gone out of business. Just wondering if you could give any color just in terms of what you're seeing from a client usage perspective, and how to think about the trajectory moving forward?

Adena T. Friedman
President & Chief Operating Officer, Nasdaq, Inc.

A

I'll answer that second question first. In terms of the general usage of our data, we see that being relatively stable. Remember, we receive fees both in end users as well as in distribution fees and machine usage of our fees. So, we have the ability, more internally, to have a stable revenue stream associated with overall industry use of our data. We continue to see very good demand for our new Nasdaq Basic feed that – or not new, but it's been around less time than others. And we continue to see growth there. And we also interestingly have seen increased demand and sales of our data into Asia. And we have put a salesperson into the Asian region, and it's been a nice year in terms of new opportunities that have come from Asia.

So, I think that we are continuing to find that there is healthy demand for our service. It's relatively stable. And with the new Trading Insights product, we continue to find opportunities to find new insights in our data that we can sell to the clients.

We launched that product in September. We already have several firms using it, testing it, and one firm already said, yeah, this looks great, and they're now buying it. So, we're really, really pleased with how the data business is going in general.

Michael Ptasznik
EVP & Chief Financial Officer, Nasdaq, Inc.

A

And the total audit revenues in the quarter were $4 million, up about $1 million from the same period last year.

Chris Allen
Analyst, The Buckingham Research Group, Inc.

Q

Got it. And then any metrics you can provide in terms of sales of IR Insights? I know you've kind of talked about it a little bit in the past in terms of that's starting to pick up a little bit. I know it's kind of a longer sales cycle through the six months. I'm just wondering if you're seeing progress on that front right now.

Adena T. Friedman
President & Chief Operating Officer, Nasdaq, Inc.

A

We are actually seeing progress. We don't give specific statistics, but we are seeing more head-to-head wins and fewer head-to-head losses with our competitors, in addition to clients picking up additional feeds. But it is a relatively mature business, so there is not a ton of new IR directors who don't have some sort of intelligence service, so we are making sure they're using this to compete much more effectively against the key competitors. In addition to finding new ways for them to use the product within the franchise, whether it's at the CFO level or other parts of the C-suite organization. So, we definitely are seeing really good progress there.

We did also, I should mention, launch a new service within IR Insight called IR Analytics, which is essentially a machine-readable way, or I should say, an automated way of delivering out some of the advisory services that we deliver. And there's more intelligence and integration of that data and information into the rest of the IR Insight suite. So, we're continuing to add really nice value into the platform as well.

Chris Allen
Analyst, The Buckingham Research Group, Inc.

Q

Got it. Thanks a lot.

Operator: Our next question comes from Patrick O'Shaughnessy with Raymond James. Your line is open.

Patrick J. O'Shaughnessy
Analyst, Raymond James & Associates, Inc.

Q

So, following up on some of this Corporate Solutions discussion, can you talk about some of the puts and takes why the revenue is flat versus the second quarter? If I recall correctly, there is typically some seasonality, but you also added a month of Boardvantage. And it sounds like the things that you're talking about, you're making a lot of progress with a lot of the key initiatives that you've got underway. So, just talk about the puts and takes on why that was flat quarter-over-quarter.

Adena T. Friedman
President & Chief Operating Officer, Nasdaq, Inc.

A

Sure. That's a good question. So, we did have the benefit of the full quarter effect of Boardvantage. Marketwired has already been in there from the prior quarter.

But with regard to the webcasting business, it's been an area of weakness for us throughout the year. There have been some budget tightenings within some of the sectors that we're strong in, and we continue to see clients potentially trying cheaper options. We actually have seen a few clients returning to us after seeing that those cheaper options just don't provide the security and the service that they were expecting. But we are seeing some weakness there.

And then the legacy PR business, not Marketwired but the legacy PR business, had some downward trend in Q3 but that's often seasonal. So, with those two things, so the webcasting and the legacy PR business kind of offset the benefit of the full quarter effect of Boardvantage and general strength in the board portal sales that we are seeing.

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

A

I also would add that with webcasting, I think Adena and the team have identified really the customers we should be addressing. We provide a high-end service we call the white-glove service, and that's where we're going to go. So, we're not so much chasing the last dollar of revenue but making sure we're getting revenue where it makes sense, and it's integrated into the other suite of products. I think in the past it's just been about getting any order. And we're going to continue with that philosophy. Higher margin, better revenue.

Patrick J. O'Shaughnessy
Analyst, Raymond James & Associates, Inc.

Q

Got it. And then for my follow-up, if ICE have to divest Trayport, is that an asset that you guys would be interested in, and do you think the regulators would let you buy it?

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

A

Well, I would say this, we haven't spent too much time thinking about Trayport. So, clearly, when it came for auction, we were there to decide whether we were going to bid on it. We chose not to. And I would say that our position is unchanged with respect to that asset.

Patrick J. O'Shaughnessy
Analyst, Raymond James & Associates, Inc.

Q

Thanks.

Operator: Our next question comes from Rob Rutschow with CLSA. Your line is open.

Rob Rutschow
Analyst, CLSA Americas LLC

Q

Hi. Good morning.

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

A

How we doing?

Rob Rutschow
Analyst, CLSA Americas LLC

Q

Good. Thanks. I wanted to ask about expenses. Obviously, you guided fourth quarter up. But I'm wondering if the third quarter would have been seasonally lower versus the first and second quarters or whether that's kind of a more consistent level. And thinking about next year, would this be a good run rate for the first and second quarters as well?

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

A

So, the third quarter came in pretty much in line with the second quarter from an organic basis. The increase we saw was due to the acquisitions. With respect to the future years, we're not going to be providing that guidance yet. Typically we'll give that in – we'll do the report at the end of the year.

I would say the only things we can kind of point to, and I covered them in my remarks, was so far, year-to-date, we've had about a 3% increase in organic expenses, which is consistent with what we saw last year as well. And you'll also have to think about obviously the remaining synergies, $37 million that will come in. Not all for the full year, obviously, because they're going to come in through the year next year. So, those are some of the key factors to take into account as you consider next year.

Operator: Our next question comes from Michael Carrier with Bank of America Merrill Lynch. Your line is open.

Michael Roger Carrier
Analyst, Bank of America Merrill Lynch

Q

Hi. Thanks, guys.

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

A

How we doing, Mike?

Michael Roger Carrier
Analyst, Bank of America Merrill Lynch

Q

Good. Well, maybe first on fixed income, just on the legacy speed business, I know you made kind of a strategic hire in the quarter. I just wanted to get your take on that business, kind of the outlook, maybe what you're retooling in terms of where you see that heading over the next year or so?

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

A

Sure. Great question. So, one, with respect to overall industry volumes, we certainly watch closely as the banks reported good FIC income. It's important to recognize that those metrics typically are not indicative of the Treasury business. So, our reference points are more [ph] the Fed (50:13) primary dealer Treasury bond volumes which were flat to down, or the CME government bond futures contracts or you look at the inter-dealer fixed income platforms. They are all flattish to down. So, we're still dealing with a somewhat difficult, I should say, difficult macro environment.

With respect to our execution, clearly John Shay coming onboard brings, I think, a lot of skills and talents and experience in relationships to that effort. So, we're proud to have him there. I'd also state that the efforts that are in place today with respect to eSpeed Elect is I think something that we're going to continue to work on and see great progress with it. And we also referenced the fact that there are in fact dark-pool capabilities that we can lever in the space.

I'd also make the general longer-term comment, Mary Jo White's comments with respect to implementing a Reg ATS kind of regime in the Treasury market would be seen, I think, as a positive for our efforts in the space. So, we like our internal efforts between the two things we have in place today and we like the general direction of the industry. And I think John will continue to add value, and certainly will, I think, augment and hopefully, improve this strategy going forward.

Operator: Our next question comes from Alex Kramm with UBS. Your line is open.

Alex Kramm
Analyst, UBS Securities LLC

Q

Yeah, hey, good morning. Just maybe more holistically, can you give us an update on your M&A outlook? I mean, obviously, I guess CBOE and Bats out there. But I think you've been more focused on the kind of like Market Technology, non-trading side. So, what are you seeing out there? Where do you think you still need to add capabilities? And what are prices doing, considering maybe the weakness in the end market?

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

A

So, I would say this that we look for opportunities across the range of businesses that we're in. But the largest acquisition we've done this year by several orders of magnitude is ISE which is, clearly, in our Trading Services business. And we have a number of different assets in our portfolio. We have a very clear view of the playing field and what other assets that are out there that might be a value to us in time.

And as I said, M&A has to be a slow-moving game, and you have to have a prior view of the attractiveness of each of the assets. So, a compliment to the management team here. We have that. We pay attention to many things. And obviously, 90-something percent or 98% of the things we think about don't happen. We were fortunate that the, really, five deals including SecondMarket, after looking them for a long period of time, came into play. And we were able to then execute and you see the results on our efforts today. And those results will have a more material impact as we go forward into 2017.

I think we still live in a time where valuations tend to be higher than they should be. You have a number of companies who want to be bought at growth company valuations when in fact they're not growing. So, we do not stomach that kind of disconnect and we pay attention. So, the same story always. We look at a lot of things and we only move when we have basically perfect alignment.

Operator: Our next question comes from Kyle Voigt with KBW. Your line is open.

Kyle Voigt
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Hi. Good morning. Just one more follow up on the Corporate Solutions business if I could. It sounds like you've made good progress on the IR conversions. And, I believe last quarter's call you stated that you're on track to complete those conversions this year. Could you just confirm whether that's still the case?

And then, sorry if I missed this, but if you could also help us think about the difference between the year-on-year organic revenue growth rates between the Corporate Solutions and the Market Technology businesses in the quarter. Thanks.

Adena T. Friedman
President & Chief Operating Officer, Nasdaq, Inc.

A

Sure. So with regard to the IRI migration, it is still on track to be completed at the end of this year. The clients have been very, very collaborative and excited about the platform. So, it has been a smooth transition over to the new services and they're seeing a lot of benefits from them.

With regard to the year-over-year quarter results on an organic basis, if we look at the third quarter of last year to the third quarter of this year with our Corporate Solutions business, it was flat. And with regard to the Market Tech business, it's 11% – I'm sorry...

Michael Ptasznik
EVP & Chief Financial Officer, Nasdaq, Inc.

A

No. It's over 20%.

Adena T. Friedman
President & Chief Operating Officer, Nasdaq, Inc.

A

20% up on the second quarter, or sorry, sequential quarters. So, yeah, it's about 20% up year-over-year quarter for our Market Technology business, and that's organic.

Kyle Voigt
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay.

Operator: Our next question comes from Vincent Hung with Autonomous. Your line is open.

Vincent Hung
Analyst, Autonomous Research US LP

Q

Hi.

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

A

How we doing?

Vincent Hung
Analyst, Autonomous Research US LP

Q

Good. Can you talk about how some of the components of the index revenues trended this quarter just given that, I think, revenues were up 4% sequentially and the average AUM is up like 6%?

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

A

Yeah. Sorry. Can you repeat the question? Sorry. Can we hear that question again?

Vincent Hung
Analyst, Autonomous Research US LP

Q

If you could give us a bit of color on how some components of the index revenues have trended in the quarter.

Adena T. Friedman
President & Chief Operating Officer, Nasdaq, Inc.

A

Sure. So the index business, we've had a nice recovery of AUM from the beginning of the year where we had a major dip as a result of some of the market volatility. So, our AUM generally is kind of a little bit above where it was at the beginning of the year. So, we're pleased with that, and so we've seen recovery there.

The futures volumes were off a little bit in the quarter versus prior-year quarter because there was a lot more volatility in volumes in the third quarter of last year. And that has created some downward pressure in the revenue. And so, therefore, it's essentially flat year-over-year quarter.

Vincent Hung
Analyst, Autonomous Research US LP

Q

Okay. And just to follow-up on NFX, how many of the 118 firms that have traded since last year, how many of those are active users?

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

A

Well, I think in a given day, you see around 40 firms that are active. And I would say, of the firms who are active from the beginning, the vast majority of them continue to trade with us. But 40 is a number, and that number, obviously, is growing on a month-by-month basis.

Operator: Thank you. Our next question comes from Ashley Serrao with Credit Suisse. Your line is open.

Ashley Neil Serrao
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Good morning. Apologies for the earlier difficulties. Just first question is just on your plans to become bigger in the governance risk and compliance space. I know surveillance has been a strong suit over the recent years. It's been a area of strength in recent quarters. Does that have a long runway for growth? Or what are some of the other adjacent capabilities that you would explore adding that you don't have today?

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

A

So I would start, certainly, on the surveillance side, we see an incredibly long runway for growth. And it's a product set that we're investing in a quite aggressive fashion. I think we just approved a further investment in it. So, when you think about where it came from the time we acquired the product to where it is today, it's a startling set of progress, but we think we have more to come.

Adena T. Friedman
President & Chief Operating Officer, Nasdaq, Inc.

A

Yeah. So, if we look across the GRC space, most notably starting with surveillance, I completely agree with Bob, and there are a couple of new things we have done. We made a minority investment in a machine intelligence company called Digital Reasoning which has natural language processing capabilities specific to the compliance space for brokers. And we are working with Digital Reasoning and with broker clients to create a holistic solution that matches up e-comm's compliance with the surveillance technology. So, that's a new capability we'll be delivering into 2017 and a growth area for us, an investing area for us.

And then, additionally, we continue to look at how we can get bigger across the spectrum of trade surveillance, trade supervision and compliance. And we continue to work with our broker clients to understand where are their biggest pain points and how can our technology continue to serve them well. And we see a long runway of opportunity there.

With regard to the corporate GRC business, which is really more enterprise risk management, operational risk management, we call that BWise, that's been going through a revenue shift. So, while we continue to see strong sales, as well as good opportunities to expand what we provide for our clients, and we are investing in new capabilities. For instance, we recently launched an IT GRC module for that. We are moving that also to more of a recurring revenue model from a perpetual license model. And so, that's been going through a little bit of a revenue shift. And we expect that to come out of that in the next couple of years so that we can continue to see growth in that business as well.

Robert Greifeld
Chief Executive Officer & Director, Nasdaq, Inc.

A

So, this space is ideally matched, what I referenced in my comments. We have leading positions in both of those – really, in all of those segments, but we're not complacent, and we recognize the technology. Change is coming, and we're in front of that, and we're going to integrate that in a very aggressive fashion. And we always like the fact when we compete against companies who call themselves technology companies but are not in fact that, they're more sales companies, and we have the technology muscle, the development muscle, to reinvent ourselves in this space. And this is a dramatically growing space and we expect to see great growth from it in the decade to come.

Operator: Thank you. That concludes the Q&A session. I will now turn the call back over to Bob Greifeld for closing remarks.

Robert Greifeld

Chief Executive Officer & Director, Nasdaq, Inc.

Great. Well, I thank everybody for their time today. As we've said numerous times, this quarter again shows the resiliency and the diversity of our business model. We had an incredibly strong transaction revenue in August of 2015. We reverted to the norm in this August; in some ways reverted below the norm. But in spite of that, you see us deliver record results. Great business model and great execution by the team. I appreciate your time today and look forward to getting together with you again. Thank you.

Operator: Ladies and gentlemen, that does conclude today's conference. You may all disconnect. And, everyone, have a great day.