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NDAQ - Q1 2016 Nasdaq Inc Earnings Call

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OVERVIEW:

Co. reported 1Q16 reported net revenues of $534m and non-GAAP net income of $153m or $0.91 per diluted share.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the NASDAQ first-quarter 2016 results conference call.

(Operator Instructions)

As a reminder, today's conference calls being recorded. I would now like to turn the conference over to Mr. Ed Ditmire, Vice President of Investor Relations. Please go ahead, sir.

Ed Ditmire - *The NASDAQ OMX Group, Inc. - VP of IR*

Good morning, everyone, and thank you for joining us today to discuss NASDAQ's first-quarter 2016 earnings results. On the line are Bob Greifeld, our CEO; Ron Hassen, our interim CFO; our Chief Operating Officer and President, Adena Friedman; President, Hans-Ole Jochumsen; Ed Knight, our General Counsel; and other members of the management team. After prepared remarks, we will open up to Q&A.

Press release and presentation are on our website, and 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 meetings 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 will now turn the call over to Bob.

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

Thank you, Ed. Good morning, everyone, and thank you joining us today to discuss NASDAQ's record first-quarter 2016 results.

First, I want to thank those of you that attended our recent investor day. I hope you found it beneficial in your understanding of our mission and our strategy. Among the themes we highlighted during this day was, we are an applied technology company at our core. Our spirit of innovation and how that lays the foundation for our growth, our resiliency for both our customers and for our shareholders, and our drive to generate attractive returns for our shareholders. I'll update everyone on how this quarter reinforces those themes later in my remarks.

Regarding generating attractive results for shareholders, we have also clearly detailed the opportunity we have to consistently deliver strong returns. So in keeping with that theme, I can't think of a more compelling way to start than in the context of record quarter results we delivered, and how it indicates how our model is performing. In the first quarter of 2016, on a non-GAAP basis compared to the prior year, organic net revenue growth was a solid 4%. Our operating income grew 8%, due in large part to a strong operating leverage. And then largely due to the impact of capital deployment of the last year, our diluted EPS grew to a more impressive 14%.

Adding in the dividend, which we recently announced had been raised, and an approximate 2% yield, the total shareholder return, assuming constant valuation, was around 16%. Now we certainly know the stars don't always align every quarter, but we do know our strong organic growth prospects, our operating leverage, and our discipline around capital positions us to deliver strong returns for shareholders.

Non-GAAP diluted EPS reached an all-time high of $0.91, and non-GAAP operating income and net income both were records at $254 million, and $153 million respectively. During investor day, we also said that at NASDAQ, our fundamental mission first and foremost, is to serve our customers. We accomplish this through an intensive engagement and feedback loop with these customers.

We see our success based on the four core principles: applied technology, growth, innovation and resiliency. When we do all these well, it will translate into a very positive total shareholder return, and that is our focus. So with that in mind, I'm going to organize my remarks today around these four principles, as they relate to our performance this quarter.

The first principle I will discuss is growth. Here, we're focused on two key areas: organic growth, and expansion through acquisitions that are strategically compelling and meet our strict financial criteria on returns and accretions. When you look at the NASDAQ value proposition, we know our clients face increasingly complex challenges, and as a result, everything we do is laser-focused to ensure we are listening to them, and executing to better meet their needs.

Clearly a good example of this intense focus is our market services business. We saw a strong organic growth, 6%, as compared to the prior-year quarter. Our cash equities business saw organic growth of 17% on our higher volumes and capture, while we also closed the acquisition of Chi-X Canada, which provides NASDAQ access to a healthy adjacent market, and explains our equities footprint in North America.

Our laser focus on the soundness and efficiency of our market plays a significant factor in our ability to capture higher share during times of volatility, and this is certainly what we experienced in the first quarter. We look forward to seeing how far new concepts like dynamic pricing can take things to further improve the quality of our markets in those critical times.

Turning to our listing services, despite a rough start to the year for the broader IPO market, this business still delivered its second-best quarter ever in terms of revenue, driven by a strong year-on-year increase in the number of listed companies. Overall, NASDAQ's US win rate continues to be a very strong 76% market share of all IPOs, and 278 new listings during the last 12 months. We won 10 of 10 IPOs in the first quarter, so certainly while 10 is not a good number, 10 out of 10, we have to be proud of.

This increasing competitive effectiveness should benefit us as we move past a volatile start to 2016, and have better prospects of seeing more IPOs come out of a still-healthy backlog of filed issuers. IPO activity on our Nordic markets has been quite remarkable.

During the quarter, NASDAQ welcomed 14 new Nordic listings, a near record quarter. Beyond IPO activity, we've seen $122 billion in market value switch to our market in the last 12 months, with category leaders such as Willis, Towers Watson, Scripps Network Interactive, CSX, TD Ameritrade, and T-Mobile.

We are also seeing a very strong performance in ETP listings. Year-to-date, NASDAQ won 43 new ETPs or switches, including 25 in the first quarter alone. Clearly the most by any US exchange. Our total ETP listings on NASDAQ were 241 at the end of the quarter, up 36% versus the same period a year ago.

The second quarter is also off to a fast start with 18 additional new listings. Clearly, these are big wins for us, and certainly this is further indication of the value proposition this franchise offers in the marketplace. We are the only US provider of a complete lifecycle solution to the ETP industry, ranging from product development and index creation to launch, listing and trading of the ETP.

I've said several times over recent periods, but I think it bears repeating again this quarter, the foundation of NASDAQ's very diversified product offering at NASDAQ is our equity trading and listings business. So it's very encouraging to see it performing so effectively, with results at multi-year highs, as well as maximizing opportunities for other businesses across our broader franchise, such as in derivatives, data and connectivity.

A great example of a business that is leveraging that foundation to succeed in terms of organic growth is our information services business, where we saw a record revenues and solid year-on-year growth, not only in data products, but also in index, and despite the first-quarter's pullback in average market levels, as our first quarter 2015 acquisition of Dorsey Wright, they enjoyed significant organic growth post-close.

Now, in addition to some of the positive organic growth trends I just shared, another fundamental prong in our growth strategy is strategic acquisitions. During the quarter, we announced or closed four new acquisitions, which we're quite pleased about. Most importantly, because they're all in our previously-committed strategic direction, they are leveraging our areas of expertise, they will build upon the business businesses we are already successful and well-established in.

Repeating the disclosures made at investor day, we said these acquisitions are each expected to generate attractive returns and generate EPS accretion within 12 months of closing, and together, would have driven an 11% increase in our non-GAAP diluted EPS, based on 2015 results, assuming full synergy realization. We are confident these acquisitions will also drive meaningful growth opportunities, and deliver even larger impact in the years to come.

In the market services segment, we closed the acquisition of Chi-X Canada, the number-two player in the Canadian equity space, in early February. We are currently working on further expanding this offering, incorporating our technology and added capabilities, which will benefit the Canadian market. The acquisition of ISE will provide us with the opportunity to broaden our US options offering, in particular gaining new capability through ISE's leadership in complex options trading, and will provide new opportunities to innovate and bring greater value to our clients.

Last week, we were informed by the DOJ that the ISE transaction's HSR review has been successfully completed, and we will work with the SEC towards obtaining their approval for this transaction. Contingent on receiving regulatory approval, this transaction could close as early as the end of the second quarter, our original estimate was in the second half of the year.

In our corporate solutions business, we announced two acquisitions, Marketwired and Boardvantage. These acquisitions will enable us to extend our corporate client customer base, and increase our exposure to some of the highest margins and fastest-growing segments in our corporate solutions business.

With respect to Marketwired, which closed in late February, we are now working through the integration of the systems, technology, and talent, with the goal of a single new platform for news distribution and analytical information. With respect to Boardvantage, we received notice yesterday that the HSR review has also been successfully completed, and we anticipate closing in the coming week. We look forward to strengthening our position as a leading provider of Board and collaboration tools.

As I mentioned earlier, technology is core to what we do here. It is core to the way we apply everything in our businesses, and we do that across products and solutions, with the singular focus to benefit our clients. Let me give you a few examples of this:

With NASDAQ private market, we are on a mission to bring increased liquidity and other advantages from the public market to the private market space. Our efforts continued to resonate with private companies, and at the end of the quarter, NPM now has 122 private companies using our software products for employee shareholder liquidity, and equity cap table administration. This compares to the 46 in the prior-year period. We continue to enhance this platform in new and innovative ways to reduce the administrative complexities and costs private companies face today.

This success follows last quarter's successful execution of the first blockchain-enabled transaction in the private space. This enabled participants to reach settlement in minutes compared to the industry's, the public company's industry current standards, which is measured in days. We are doing incredibly exciting things in the private market space today, but most importantly, we are only beginning to scratch the surface in terms of the level of innovation and capabilities we can in fact deliver for private companies.

In our corporate solutions business, which serves issuers both public and private, we have successfully launched our next-generation IR Insight platform in the first weeks of January. And through the first three months of this launch, we migrated 750 clients and over 1,200 users. That is truly impressive. We also received much feedback from the early adopters, most of it overwhelmingly positive, but this feedback loop is also helping us to develop and quickly deploy innovative new features. We expect to complete the transition of the remaining 2,500 clients within the next six months, and sunset the legacy T1 platform on schedule during the fourth quarter of this year.

We've added also new customers through cross-selling our existing base and winning competitive situations. In addition, we've seen IR Insight and the integration of platform office serve us as an opportunity to deepen relationships with customers, by cross-selling other products in advisory in communications segments. While still early days, we see clear examples of how elevating the bar in terms of technology and product design will be key to bringing sustained organic growth to corporate solutions in the periods to come.

Moving on to our market technology business, we're also leveraging the trends for applied technology to increase the capabilities to utilize blockchain technologies to evolve our post rate operations, as we continue to enjoy near record highs in our signed contract backlog. SMARTS, our leading solution in the surveillance space is a good example of the success we've had in evolving a product over time, to increase the value for our clients. In fact, we had a record quarter in terms of SMARTS' new order intake and this is really a strong growth story for us, as our clients have turning to us more and more to help them manage the complexities of the new regulatory environment.

We are also currently exploring the application of technologies such as machine intelligence, which we expect to open up a host of new opportunities and capabilities for advanced compliance and surveillance, that will detect fraud more quickly, and in more asset classes. We are also currently exploring a number of proofs of concept in our lab that looks to harness the predictive abilities machine intelligence offers to enhance our listing, our trading, our index, and our data product areas.

To ensure we are positioned to take advantage of these opportunities, we are making investments, and also we're parted with Digital Reasoning, one of the thought leaders in this space. Our use of applied technology is really only one-half of the equation. It is what we do with this technology to deliver on a client's need that is the most important, and in many respects, where true innovation takes place.

NFX, our energy derivatives market, is a good example of our focus on new concepts and a better way to serve our clients. Now in its ninth month of operation, we are extremely encouraged by the volume and Open Interest progress we are seeing. During the April trading, volume passed a significant milestone, moving above 100,000 contracts per day on average, while Open Interest also continued to set new records and we went above 800,000 contracts just this week, and we now make up about 40% of the futures open interest at OCC.

We are seeing a growing number of firms use our NFX service, and during the first quarter, more than 70 companies managed their trading and hedging needs on NFX. On May 1, we will implement our new feed program for NFX. we are committed to provide the market with transaction costs that are 50% lower than the incumbents. These fees will be introduced in a phased manner. May 1 is the first phase of that program.

When we think about resiliency at NASDAQ, we of course that's about our technology and the systems, and how reliably they serve our customers. But we also think more broadly than that in how we run this organization. Central to this business model, our business model is a diverse mix of subscription and recurring revenue. Almost 3/4 of our current revenue is subscription and recurring.

We are also continuing our maniacal focus on optimizing efficiency and margins on a product-by-product basis, even while investing materially to grow each franchise, and this is evidenced in the significant increase in our profitability year-over-year. In fact, our 48% non-GAAP operating margin matches a multi-year high.

Together, these give us an exceptional amount of visibility and stability in our growth path, which combined with our organic growth opportunity, significant operating leverage, and disciplined deployment and return of capital has us on a great path to deliver strong shareholder returns, both in terms of combined earnings, growth, and dividend yield. It also continues a successful story that we can continue investing enervating on behalf of our customers, as well as nourishing the seeds of tomorrow's growth.

In closing, it was another tremendous quarter for this franchise. The examples I've outlined here today clearly demonstrate this franchise is focused on the innovative use of technology, growth, and resiliency, is not only increasing the amount of client opportunities for us, but it does manifest itself in the results we deliver to our shareholders.

What is most exciting for me is that when we look across all our businesses we are in, there are perhaps more quality opportunities in front of us today than during any other time, during my tenure. We certainly feel very good about our ability to execute on these, behind the resilient business model we have built. We alluded to strong value creation during investor day. This quarter is clear indication that we on the right glide path to achieve this, and look forward to exceeding expectations for our clients and our shareholders in the quarters to come. I'll now turn the call over to Ron.

Ron Hassen - *The NASDAQ OMX Group, Inc. - Interim CFO*

Thank you, Bob. Good morning everyone, and thanks for joining us today. My commentary will focus on non-GAAP results. Reconciliations of GAAP to non-GAAP results can be found in the attachments to our press release, and in the presentation that's available on our website at IR.NASDAQ.com.

I will start by reviewing first-quarter revenue performance, relative to the prior-year quarter, as shown on page 3 of the presentation. The 5% or $27 million increase in reported net revenue of $534 million consisted of organic growth in market services, net revenue of $12 million or 6%, resulting principally from higher cash equity, and excess revenues.

Organic growth in non-trading information services, technology solutions, and listing services segments totaled $7 million or 2%, due to the growth in listings and information services. In addition, there was $10 million in revenue from recently completed acquisitions of Marketwired, Chi-X Canada, plus one additional month in the first quarter of 2016 from BWA, while year-over-year change in FX rates reduced revenue by $2 million.

I am 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 5 saw a $5 million or 4% organic increase, plus a $4 million increase related to BWA and Chi-X Canada acquisitions, reduced by a $1 million FX impact. Market data revenues saw a $4 million or 4% organic increase, reflecting revenue growth in index data and proprietary products.

Index licensing and services saw a $1 million or 4% organic increase, reflecting growth in BWA. Technology solutions, shown on page 6 saw a $4 million or 3% increase in revenue, including $4 million contribution from the acquisition of Marketwired. The operating margin was 12%, up from 11% in the prior-year period. We continue to have confidence in reaching our medium-term objective, and expect further progress as we move through 2016.

Corporate solutions saw a $1 million or 1% organic decline, as shown -- as growth in Directors Desk was more than offset by declines in multimedia. Repeating what we said at the recent investor day, we continue to believe we are on the path to return to organic revenue growth in corporate solutions, but would expect that in the second half of 2016 at the earliest.

Market technology revenue saw a $1 million or 2% organic increase, due to organic growth in surveillance products. New order intake was $22 million in the first quarter, and the period-end backlog finished at $783 million, up 8% year-over-year, and their all-time record of $788 million set in the fourth quarter of 2015.

Listing services on page 7 saw a $2 million or 3% organic increase in revenues, driven primarily by increase in the number of listed companies. Operating margin of 42% was down from 44% in the prior-year quarter.

Market services, on page 8, saw a $12 million or 6% organic increase in net revenues, plus a $2 million increase due to the acquisition of Chi-X Canada, reduced by $1 million FX impact. Operating margin increased to 56% from 54% in the prior-year period. Equity derivatives trading and clearing net revenue achieved a 4% organic growth, primarily due to the higher US industry trading volumes, and higher US average net capture, partially offset by lower US market share.

Cash equities trading net revenues saw a 17% organic revenue increase, due to the higher cash equity and net capture, and increased industry volumes, partially offset by modestly lower market share. Fixed income, currency, and commodities trading and clearing net revenues saw a 17% organic decline from the prior year, principally due to NFX-related trading incentives, and lower US treasury volumes, partially offset by growth in European fixed income and commodities trading. Access and broker services saw a 7% organic revenue increase, due to the increase in customer demand for network connectivity.

Turning to page 9 to review expenses. Non-GAAP operating expenses increased $5 million on an organic basis, or a 2% increase, due to $6 million -- and $6 million due to BWA, Marketwired and Chi-X Canada acquisitions, partially offset by $3 million in FX impact, resulting in an $8 million or 3% reported increase.

Turning to slide 11, our revised 2016 non-GAAP operating expense guidance is $1.180 billion to $1.230 billion versus the previous $1.110 billion to $1.160 billion. The core expense guidance is unchanged, but we are updating it to include the impact of closed Chi-X Canada and Marketwired acquisitions as well as Boardvantage acquisition, which we expect to close in the next week, which we collectively expect to add $70 million of expense in 2016, including $5 million that was already included in the first quarter of this year. The expense guidance does not include the impact of our pending acquisition of ISE, but we look forward to updating you on its impact after it has closed.

Non-GAAP operating income in the first quarter increased 6% on an organic basis, and 8% in total. Non-GAAP operating margin came in at 48%, up from 46% in the prior-year period, and primarily reflecting the margin improvement of our market service business. Net interest expense was $27 million in the first quarter, unchanged from the prior-year period.

Other non-operating income came to $3 million in the first quarter. This income primarily represents our portion of income and losses from certain investment interests, such as our equity interest in OCC, Euro CCP, and TOM. Going forward, including the pick-up from the incremental equity in OCC that will occur when we close ISE, we expect other operating income to range between $1 million to $2 million per quarter for the foreseeable future.

Non-GAAP effective tax rate for the first quarter was 33.5%, and was within our guidance. Non-GAAP net income was a record of $153 million, or $0.91 per diluted share, compared to $138 million or $0.80 per diluted share in the first quarter of 2015.

Now, moving on to cash flow and capital, please turn to slide 13. During the quarter we purchased $29 million in stock, and through dividends and repurchases, returned $70 million in capital to the shareholders. Additionally, during the quarter, we announced a 28% increase in our quarterly dividend to $0.32, and NASDAQ's Board of Directors authorized an additional $370 million in share repurchases, bringing the total remaining value authorized to $500 million. This authorization is expected to be used primarily to offset share issuance, such as employee share-based equity plans. As such, we expect this utilization to be over a multi-year period. Thank you for your time, and I'll turn the call over to Bob.

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

Thank you, everybody. Ed, we are ready for questions, right?

Ed Ditmire - *The NASDAQ OMX Group, Inc. - VP of IR*

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Our first question comes in Rich Repetto from Sandler O'Neill. Your line is now open.

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

Congrats on the record earnings quarter, Bob. I guess the first question is just a technical question. On the increased expense guidance, Ron, it just seems -- it feels like $70 million is probably the right number, but when do we get any of the $60 million in synergies? Is there synergies baked into that as well?

Ron Hassen - *The NASDAQ OMX Group, Inc. - Interim CFO*

Right now and for 2016, Rich, we are seeing very little synergies, and it's really going to happen, really in 2017 and 2018, the $60 million that we actually disclosed to you during investor day. So there is no synergies in that number, at this stage.

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

Okay. And then my one follow-up would be for Bob. Yesterday, they had the EMSAC, the Equity Market Structure Advisory Committee, and I guess two things that look relevant to NASDAQ, would be the proposal for the cap on access fees. I know you've done your test but just any comments, color on that. And then also, their outline for proposal on SRO liability, limiting the liability to certain areas, as well as they even propose, I think, the idea of capital being retained at the exchange for that liability. So I guess thoughts on those things that occurred yesterday at the Equity Market Structure Advisory Committee?

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

Rich, the first thing I would do is put that committee in context, in that it is a prelude, and there is no official standing in the process, so whatever recommendations come out of that, may or may not be put out for comment and review. And as you know, the comment and review process is long and difficult by itself. This is just very early stage, with everything.

As you know, we think committee is not formed in a proper way, and it's a strange and curious situation where the two listing exchanges is not part of that committee, that I think that in some very significant way, diminishes the authority of the committee, even though it doesn't have an official position. So, we will digest what they've said, and then we'll comment, either through the official period, or depending on what makes it through, or we'll comment now, so we're working with it.

With respect to the access fee, as you know and you referenced, we tried that, we tried that by ourselves, and clearly, it has to be a coordinated effort by the industry, so we need to study the details, but clearly we are line with that in concept. With respect to immunities and Mr. Knight's here to help me out, but understanding the immunities are really a court issue, more so than a commission issue at that point in time.

Ed Knight - *The NASDAQ OMX Group, Inc. - General Counsel*

And the preliminary recommendations of the sub-committee, there was none on immunities.

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

Right.

Ed Ditmire - *The NASDAQ OMX Group, Inc. - VP of IR*

And I want to emphasize the point Bob was making. The subcommittee's recommendation, the next step is for the full committee to consider them. Then they go to the staff of the SEC, and the SEC staff has to decide what it recommends. Then it goes to the commission, the commission has to decide what it recommends. Then it goes to the public, and it goes through a process of public comment, and the evidence in that comment period has to support the conclusions, or there's the potential of court review. So there are many steps in this process.

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

Right. So I have said before that the pace of the SEC could be described as glacial, it's important to recognize, this is before you even get to the SEC, and there also will be a change of administration, both in the White House and at the SEC probably, in the not-too-distant future. So it's hard to predict what's going to be happening, but it's just, we'll be at a very slow pace.

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

Yes, I got it. Thank you, and I totally agree with you on the peculiar make-up of the committee. Thanks.

Operator

Thank you. Our next question comes from Ashley Serrao of Credit Suisse. Your line is now open.

Ashley Serrao - *Credit Suisse - Analyst*

So I guess first question, just on corporate solutions, with respect to the rollout of our insight, heard you're making progress on the client conversions, but more curious about the competitive landscape, how are rivals responding, and whether you have manage to attract any new clients to the offering?

Adena Friedman - *The NASDAQ OMX Group, Inc. - President and COO*

This is Adena. We have been able to attract new clients into the offering, and our sales pipeline is picking up quite nicely, particularly as we go into the second quarter, because we had to get the system launched, and then we had to start to show it to all the clients. And it's easier to sell a product once it's in full production, and you can really show it in all of its glory so we're definitely seeing an increase in the sales pipeline, as well as on sales, as well as competitive wins. And we definitely see that picking up, as we get into the second quarter.

Ashley Serrao - *Credit Suisse - Analyst*

Okay. And just another question on corporate solutions. MMS, or Multi-Media Solutions, has been a drag now for many quarters. Just curious if there's anything you can do to either improve the margin profile of that business, or even if you consider that a core offering today?

Adena Friedman - *The NASDAQ OMX Group, Inc. - President and COO*

I think the Multi-Media Solutions business, which really is our webcasting business, as you mentioned at investor day, has created some short-term challenges, and we are working through with a partner to continue to look at enhancing our offering, and we continue to look at how we offer the product in terms of pricing and service. We are working through those issues, and we will continue to update people as we progress.

Ashley Serrao - *Credit Suisse - Analyst*

Okay. Thanks for taking my questions.

Operator

Thank you. And our next question comes from Kyle Voigt of KBW. Your line is now open.

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

So the first question I want to ask on NFX, seems like you have been making some good progress there, but I believe some of the trading incentives are going to be eliminated for certain products shortly. So can you just give us an update on timing there, and remind us which products you expect to wind down? The incentives first? Thanks. Thanks.

Ron Hassen - *The NASDAQ OMX Group, Inc. - Interim CFO*

I would say two things. One, there will always be some level of market maker incentive involved with NFX, and other efforts in this space. But I think it's important to note, as I said my prepared comments, on May 1, we will start charging early days some nominal rate, but charging for those parts where we basically have double-digit market share.

And it's important to recognize that these charges have been done in direct consultation with our market committee, and has broad support from the customers that now is the time to move along with that. So as I said in all my comments, we are in active engagement with our customers across a wide range of our businesses, and it's nowhere more true that at NFX, where we have strong customer support, strong customer support for what we're doing, and actually to start the charging on May 1.

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

Okay. And then just a follow-up would be on the debt financing for ISE and some of the other acquisitions. So there were some headlines that come across just suggesting that you're planning to issue a euro denominated bond. Can you just give us an update on the financing plans, and whether this has changed the outlook for a 4% to 5% interest rate on the new debt? Thanks.

Ron Hassen - *The NASDAQ OMX Group, Inc. - Interim CFO*

Great question. Yes, we're definitely looking into both the euro market as well as the US market, and as I mentioned at investor day, we are looking between a 7 and 10-year, actually between a 5 and a 10-year offering, and as I indicated, 4% to 5%, I would guide you closer to the low end of that, in terms of an interest rate, since the euro market looks very favorable at this point.

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

All right. Thanks, Ron.

Operator

And our next question comes from Chris Allen of Buckingham. Your line is now open.

Chris Allen - *Buckingham Research - Analyst*

Appreciate the updated expense guidance for the deals. I'm just wondering if you could give us any color, in terms of what the -- if the deals that closed this quarter, the beginning of the quarter, what the revenue run rate would have been. I know you give us a little bit on the $2 million for a month, wondering full-quarter, and if that included Boardvantage?

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

The first thing I would say with ISE is we didn't expect to get the approval so soon, so I know I've not spent a second thinking about what the revenue would look like. And if we close this deal at the very end of June, I think that would be beyond our most optimistic thoughts, as we announced the deal.

Chris Allen - *Buckingham Research - Analyst*

Right.

Adena Friedman - *The NASDAQ OMX Group, Inc. - President and COO*

I think also at investor day, we did provide you of disclosures of the impact of the acquisitions, and for the two decisions on acquisitions, the revenues tend to be relatively stable quarter-over-quarter, so you can take some of our annualized impact and understand what would the impact for an individual quarter.

Ron Hassen - *The NASDAQ OMX Group, Inc. - Interim CFO*

If we go back to investor day, we gave you guidance for the corporate solutions two acquisitions to be $85 million, so it's more or less in line year-over-year.

Chris Allen - *Buckingham Research - Analyst*

Got it, so it's still stable with the guidance gave at investor. And then just on the order backlog, within market technology, I think you said it was a record quarter in surveillance, but it obviously is one of the lowest order intakes we've seen in a while. I've read it can be pretty lumpy. Any -- how do we think about the order intake at the current backlog, and what you're working on, in terms of new sales there?

Adena Friedman - *The NASDAQ OMX Group, Inc. - President and COO*

Sure. I think that it's very important to note that the fourth quarter was an extraordinarily strong quarter for us, in terms of closing new sales across the entire business, BWise, SMARTS and the core market tech business. Generally what happens is, if you both a really big push at the end of the year, and the first quarter tends to be a little bit slower. This one was, we had an extraordinary strong end-of-the-year, and so our first quarter has been a little bit slower, but we definitely see a very strong sales pipeline, frankly across the entire market technology franchise. So we have no concerns over the overall strength and growth potential of the business.

Chris Allen - *Buckingham Research - Analyst*

Great. Thanks a lot.

Operator

Thank you. And our next question comes from Mike Carrier of Bank of America. Your line is now open.

Mike Carrier - *BofA Merrill Lynch - Analyst*

Bob, just want to get your take, when I look at the other growth that you have put up, particularly on the non-transaction side, it's been healthy, when you look over the past call it five or six quarters. It always seems like the first quarter, even though there's seasonality, even on a year-over-year basis, it tends to look a little bit weaker. I wanted to get your take. Is there something in the business that causes that, and then you get the resurgence throughout the year, that we should expect on an ongoing basis? Or is there certain things like this quarter that kind of weighed on that growth rate universally, what we've been seeing, over the past few quarters?

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

I would say this. Once we get into the software and services business, it does bring me back to my days as a software entrepreneur, or at SunGard, where the fourth quarter is the big push, and then the first quarter is always weak. So I think with the business models we have, we're not going to have that fourth quarter boom and bust, but we will certainly see seasonality effects on a consistent basis.

Mike Carrier - *BofA Merrill Lynch - Analyst*

Okay. That's helpful. And Ron, two things. Just wanted to get your take, and I know this is going to get somewhat probably too long out there in terms of timeline, but when you think about those synergies that you mentioned in 2017 and 2018, I just wanted to try to quantify that, without giving any expense guidance for 2017 of 2018. But just wanted to make sure we had those, when we start thinking out, for the 2017 expense growth. And also on just cash use, so when you think about capital deployment, what we should be thinking about in terms of the debt paydown versus what I would call more core for you like buybacks and M&A?

Ron Hassen - *The NASDAQ OMX Group, Inc. - Interim CFO*

So in terms of synergies, we're looking really at an 18 month horizon in terms of the $60 million that we're looking at, in terms of majority of it anyway. In terms of the buybacks and the deleveraging, I think we mentioned this before, it's going to be more of a balanced approach. We want to get down to the mid 2.5 level, and it's going to be 18 to 24 months before we get there. So buybacks look to continue to happen, as I said in my prepared remarks. It's more or less going to offset the natural dilution that we have in the share count that we have, and we are really going to focus on deleveraging, getting us back to 2.5 times leverage.

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

I would add two things to that. One, with respect to the synergy realization, I don't think the management team is completely baked in, in terms of what the plan is, and I think you will find more details from us in the quarters to come. We're definitely just happy to be closing these deals sooner than we thought, and obviously, we haven't closed ISE yet. So we have some more work to do there. And with respect to the buybacks, in addition to maintaining the share count, we would look to do buybacks on an opportunistic basis, as we've done the past, and we have been successful in making sure that we see value in the stock, that we are more aggressive rather than less.

Mike Carrier - *BofA Merrill Lynch - Analyst*

All right. Thanks a lot.

Operator

Thank you, and our next question comes from Alex Kramm of UBS. Your line is now open.

Alex Kramm - *UBS - Analyst*

I wanted to just ask again about the excess services increasing, I think Ron mentioned, I think, an increase in network demand. Can you flesh it out a little bit more? It seems like the trading space has actually grown much slower in terms of new users, so is that pricing, or do you actually see with increased volume that people want more bandwidth, or are there actually new people connecting?

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

I think all of the above, but if I was to highlight one factor, we have certainly had success with our microwave offering, and that was probably the strongest single contributor to a very strong first quarter.

Alex Kramm - *UBS - Analyst*

Okay, great. And then just secondly, just circling back to NFX, obviously, yes, the incentives coming off and so forth but I think in the past, you've given some color in terms of the user base, and also maybe how open interest is looking. So any particular color, like who are these 70 people that are trading, are you getting some of the commercial users to sign up, and also how does your open interest compare to what you see at the incumbents at DME&Is? Any differences there that make us believe this is more sustainable than maybe some of the other initiatives you had in the past? Thank you. Thank you.

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

Well I would say, one, by definition, open interest shows that you're building an asset over time, and to get to 800,000 contracts in open interest, I think is certainly remarkable. 100,000 contracts we're very proud of as daily activity, but 800,000 of open interest. And as I said in my prepared remarks, compared to basically the biggest complex at OCC, we're 40% of the volume, and obviously VIX Futures have been around for a lot longer period time than that. So still early days, but certainly more progress than we would have planned for at this particular point in time.

With respect to the first part of your question, when you have 70 participants, it has to represent the broad spectrum of the marketplace. We're averaging now in the high 40s on a daily day with respect to the number of participants, so we feel very good about that. So beyond the investment banks, and beyond the market makers, we certainly see what we call the naturals coming in to the marketplace. And we are obviously a big story within that marketplace, we are too big to hide, everybody's aware of it, everybody's aware of the liquidity. In particular, the products we have where we're a double-digit market share on a daily basis.

Alex Kramm - *UBS - Analyst*

All right. Very helpful. Thank you.

Operator

Thank you. Our next question comes from Brian Bedell of Deutsche Bank. Your line is now open.

Brian Bedell - *Deutsche Bank - Analyst*

And just to focus on the market technology segment, question for Adena on the corporate solutions, if you just flesh out, I think that was also some -- I think you had mentioned at investor day, some it is pricing for some of the energy clients also being a headwind to that revenue stream. And then, if you can talk about the progress toward the 20% op margin goal for the market technologies segment? I know obviously it's depressed in 1Q, but if we're still on track for that for full year 2016?

Adena Friedman - *The NASDAQ OMX Group, Inc. - President and COO*

I think that the thinking, the first question, with regard to energy clients, as a general matter, we're seeing some of M&A and what we would say, working with some of our energy clients, to make sure that they retain their service, but they may -- we might reprice it in the short term, to make sure that they continue to avoid our service, while they are working through some of their own business challenges. That is creating some level of headwinds, so both M&A and that kind of activity, in the Investor Relations segment of the corporate solutions.

But we want to make sure that we continue to work with our clients, we are very focused on that, and we will continue to do that, while we also grow through new clients and other things. So it's definitely a mixed story right now, in terms of a finding new clients, upgrading our clients, adding users to existing clients. But at the same time, we're working through some challenged sectors and managing through a lot of M&A activity amongst some of our clients. With regard to the second question, as we have said before, its multi-year outlook for the business to achieve a 20% run rate margin, across technology solutions, which includes market technology and corporate solutions, and we continue to be on track with that, and we discussed that at investor day, and we continue to see that as an achievable goal for us.

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

And last but not least, the acquisitions are certainly going to help you achieve scale and hit the margin levels.

Adena Friedman - *The NASDAQ OMX Group, Inc. - President and COO*

Absolutely.

Brian Bedell - *Deutsche Bank - Analyst*

And that's helpful for the second half, I would assume, on the acquisitions. And just a quick follow-up, Bob, or Ron, the EPS drag that you expect from NFX and NLX combined, I guess, maybe just in the first quarter here, and then what you are expecting with the new pricing arrangements for the balance of the year, like a quarter EPS track.

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Ron Hassen - *The NASDAQ OMX Group, Inc. - Interim CFO*

The impact for NFX this quarter was $0.02. And NLX was $0.01.

Brian Bedell - *Deutsche Bank - Analyst*

And do you expect that to improve with the new pricing dynamic over the next three quarters?

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

We think there's going to be two different things happening, as we get to the second half of the year. We will be charging on the NFX side, and also I think our cost base with NLX will decline. So the $0.03 might go to $0.02, but you are in that ballpark.

Brian Bedell - *Deutsche Bank - Analyst*

Great. Thanks for taking my question.

Operator

Thank you and the next question comes from Chris Harris of Wells Fargo. Your line is now open.

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

Just want to come back to the organic revenue growth in non-trading segments. I know we talked about the seasonality earlier. But if you think about the setup for the rest of the year, do you think you're going to be able to potentially hit your mid single-digit target? I know that's more of a longer-term target, but I'm thinking specifically for 2016. And if you do feel comfortable with that, what are going to be the main drivers?

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

The thing I would start with is by saying that is a target over a multi-year period of time and we are still in a building cycle, the way I look at it. We are certainly very excited with the rollout of IR Insight, we are very excited about the integration of the acquisitions into the existing product set, and what it's going to mean to our competitive positioning in the market place. Market technology is on the cusp of a new product cycle, and certainly, we see great opportunities in clearing enabled and enhanced by blockchain technologies. So this is a multi-year goal, I personally don't think about 2015, 2016 in a given time period, but look at the trend line that we have, and we feel very good about that.

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

Okay. Thank you.

Operator

Our next question comes from Ken Hill of Barclays. Your line is now open.

Ken Hill - *Barclays Capital - Analyst*

Just a question then on the listings front. You had some pretty strong trends, I think, on the ETP business, with 42% market share there. I was hoping you could go through how you're seeing that market evolve for both the listing standpoint, maybe how you're differentiating yourself versus other exchanges out there, as you guys compete for listings for exchange for other products going forward, and maybe what other benefits that gives your business over time?

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

Let me start with the last part, and then I'll Adena answer part of it. It's important to recognize that with the ETP listing, it's not a great revenue opportunity for us, it's bundled pricing across families, and it doesn't amount to a lot of money. Where the ETP market is interesting, is if you happen to have one listed with you that trades actively. So clearly in this marketplace is, call it 10, that matters to the trading community. The others are good to have, we service our customers well with it, but not drivers of revenue in any significant way.

Adena Friedman - *The NASDAQ OMX Group, Inc. - President and COO*

In terms of our efforts to continue to be the listing venue of choice for ETPs, we have the benefit of being able to offer the exchange traded products visibility through the market site, and other visibility programs that we have here, which makes it so that we can be differentiated from some of our competitors. The other thing that we do is we work with the lead market makers and the ETPs around a market maker quality program, that also provides for some rebate, a rebate program to the lead market makers, in addition to working through an opportunity to provide some benefit to the issuers on that, as well.

And then we also, I think that we have this full-service approach, we are an indexer ourselves, we understand what it takes to be a successful exchange traded product. We leverage that expertise, and we talk, and we feel that we're very quite focused around making sure the ETPs feel that they have the best possible market structure, and market environment to trade their products. We're pretty proud of what we can offer, and that's obviously showing up in some really great success, last year and this year.

Ron Hassen - *The NASDAQ OMX Group, Inc. - Interim CFO*

So certainly first quarter was a great quarter for our switchers, and I think we have evolved our market structure to be sensitive to the particular needs of ETPs, and I think you can see that trend line continue in the quarters to come. Where you will have a market structure enhancements just for these issuers.

Ken Hill - *Barclays Capital - Analyst*

Great. Thanks for taking my question.

Operator

Thank you, and our next question comes from Andrew Bond of RBC Capital Markets. Your line is now open.

Andrew Bond - *RBC Capital Markets - Analyst*

I wanted to get your thoughts on that US cash equity market's market volatility and why it declined quite a bit from the beginning of the year. NASDAQ's market share has also continued to decline. So obviously that's a related to increasing dark volumes, but is there something driving the share decline from NASDAQ's market? Is there anything strategic you might need do, particularly as IEX becomes a national market soon? And that potentially gets more competitive, given the recent IPO.

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

I would say this, as we said before. We are very focused on managing the balance between share and capture, and I think the team has done an outstanding job with that over the years. So in a given month or a given quarter, the focus will change somewhat. But overall, I think we have a good balance, and it's important to recognize from a trading perspective, we still by far and away run the largest venue on Tape C, and that's the point of intersection between us on the trading side and the listing side, so we are very comfortable with our positioning there.

Andrew Bond - *RBC Capital Markets - Analyst*

Okay, great. Thanks.

Operator

Our final question comes from the line of Alex Kramm with UBS. Your line is now open.

Alex Kramm - *UBS - Analyst*

Just a couple things. One, Adena, did you actually give the net sales number in corporate solutions? Maybe I missed that, and I have another, I have a question.

Adena Friedman - *The NASDAQ OMX Group, Inc. - President and COO*

We do not disclose net sales, and we provide you with revenue and expense results, and general trends.

Alex Kramm - *UBS - Analyst*

Okay. I think it was $3 million last quarter, so you've given it in the past, but I was just curious to get an update. But all right, anyway. Second question, just on the index business for a second, this is more of a bigger picture question. Obviously, you always highlight the AUM there, but can you actually break that segment down? I know it's a small segment. How much of that business is actually AUM from EPS? How much was subscription revenues and how much is derivatives trading fees, and can you give any general trends in terms of, are you taking pricing on subscriptions, and any other color you can provide, so we can model that piece better? Thanks.

Adena Friedman - *The NASDAQ OMX Group, Inc. - President and COO*

The data revenue associated with the index business is in the data business. So you will see that sitting in the data business. In terms of -- and so in terms of generally, though, on the index business, we continue to see strong trends in overall demand for our products. We have had some market-related headwinds within AUM, but the fact of the matter is, we continue to see strong demand for those products, and that AUM has recovered quite nicely, as we got into the second quarter.

In terms of, we don't break out the revenue in terms of how much is a contributor to each, but we have seen strong trading activity in the first quarter. We also continue to see growth in demand and new product launches for our overall business, and we continue to work very closely with ETF sponsors to launch new products, which will drive further growth over time.

Alex Kramm - *UBS - Analyst*

All right. Very good. Thanks again.

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

Okay. Well, thank you, everybody, for your time today, and certainly we're proud to deliver another record quarter for our shareholders, our stakeholders. And as I'd like to say, we do judge how we are doing relative to our positioning with our customers, and beyond the financial metrics we just disclosed. The first quarter was another good quarter for us, improving our competitive positioning with our customers, and obviously that will determine our long-term financial success. So we're proud of hitting on both cylinders. We again, thank you for your time and look forward to answering your questions in the days and weeks to come.

Ron Hassen - *The NASDAQ OMX Group, Inc. - Interim CFO*

Thank you.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program, and you may all disconnect. Have a great day, everyone.
