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# EDITED TRANSCRIPT

## NDAQ - Q3 2015 Nasdaq Inc Earnings Call

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**OVERVIEW:**

Co. reported that 3Q15 reported net revenues were $529m and non-GAAP net income was $151m or $0.88 per diluted share.





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## PRESENTATION

**Operator**

Good day, ladies and gentlemen, and welcome to the Nasdaq third quarter 2015 results conference call.

(Operator instructions)

As a reminder, today's call is being recorded. I would now like to turn the conference over to Ed Ditmire, Vice President of Investor Relations. Sir, you may begin.

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**Ed Ditmire** - *Nasdaq, Inc. - VP or IR*

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

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**Bob Greifeld** - *Nasdaq, Inc. - CEO*

Thank you, Ed, and good morning, everyone. And thank you for joining us today to discuss Nasdaq's third quarter 2015 results. I'm here today joining this call from our London office, an important and growing hub for many of our businesses. It is always a pleasure to visit this great city.

Turning to our performance in the third quarter, I am pleased to announce that this franchise delivered its best quarter ever in terms of revenue, non-GAAP operating profit, pretax income, net income and diluted EPS. What is even more interesting to me is that we delivered record results again for our shareholders despite significant FX headwinds, all the while we continue to heavily invest in our future. During the quarter, we were also pleased to see accelerating organic growth, not only in our market services segment, which benefited from favorable macro factors, but also across our non-transactional segments. Positive organic revenue growth, which excludes foreign exchange and acquisition impacts, was contributed by all four business segments.

Because of our continued strong execution and the significant cash generation our model delivers, we were in a position to be able to return almost $300 million to shareholders through buybacks and dividends during the period. This is certainly a prized position that all companies strive to achieve and one that Nasdaq is pleased to be able to achieve this quarter. Today, I want to focus the bulk of my remarks again on the strength of our business model and how that is contributing not only to results we saw during this quarter, but how it is also creating additional upside opportunities across the franchise.

We talk a lot here at Nasdaq about innovation, and our ambition to lead change on behalf of our clients is a core tenet of our culture. We also, however, greatly respect the value of consistency; consistency not only in the way we run our business, effectiveness first and then efficiency, but also consistency in our approach to building a robust and resilient business model. When you look at the results we continue to deliver quarter after quarter, we have the right ingredients; and the power of our model was especially evident this quarter, with both the trading and non-trading business segments hitting their strides.

Our market services segment saw a very robust 12% organic growth excluding FX, which was driven in significant part by the impact of market volatility, which it had on volumes, but this was also amplified by healthy capture rates and leading market share positions in the vast majority of the markets we compete in. In addition, we saw a significant jump in organic growth across our non-trading segments, which combined reached 8% and was driven by double digit performances in both listings and the information services segments, as well as improvements in technology solutions.

One of the benefits of our strategy to compete in businesses that are levered to technology, as well as our disciplined approach to expenses and capital deployment, is that our model affords us an ability to deliver bottom line growth that meaningfully outpaces revenue growth. For example, excluding the impact of FX but including the 2% revenue impact of the Dorsey Wright acquisition, revenue increased 11% year-on-year, operating income increased 13%, and EPS grew 17%, with the last 4 points of growth largely due to capital deployment, including repurchases and income associated with the OCC recapitalization.

To me, the most attention grabbing aspect of our performance is that we are still in what I would consider a building phase. There is much more upside on our horizon, especially given the growth initiatives we have in our pipeline, including Nasdaq Private Market, a new energy derivatives market, NFX, the work we're putting into the corporate solutions business, and the innovations we're implementing across many of our other products.

Now I would like to turn and highlight some of the more notable areas of our strong performance during the quarter. As I emphasized earlier in my remarks, our core businesses continue to deliver. Revenues from our foundational cash equities trading and listing businesses combined are up over 27% year-over-year on an organic basis excluding FX, a very strong performance. Global cash equity trading rose 39% on an organic basis, resulting in one of our best revenue quarters in over the last seven years. Truly outstanding.

Our listing businesses rose 17% on an organic basis, as we capitalize on the strong supply of new listings, leveraging the firm's strongest competitive positioning in the Company's history, and higher average pricing. Our expanding value proposition continues to attract companies, as evidenced by our expanding US IPO win rate, which reached 80% during the quarter, helping to bring our IPO count for the year to 111. Our total number of US listings rose 4% compared to the prior-year period. Nasdaq has listed more IPOs than any other US exchange this year, with combined proceeds raised of approximately $13.6 billion.

The companies that continue to be drawn to the expanding portfolio of services we offer include a diverse mix of technology, consumer and energy brands. In the third quarter, we were pleased to again welcome wonderful brands to our market, including Blue Buffalo, TerraForm, MasterCraft and Sunrun, to name a few. Equally exciting for us is the recent announcement that wireless provider T-Mobile, a $30 billion-plus market cap company, will switch its listing to Nasdaq. Our competitive spirit has never been stronger and we are pleased to welcome T-Mobile to the Nasdaq family.

In our Nordic markets, we continue to see an equally robust performance. The third quarter had nine new listings and total listings are up 7% compared to the prior year. We are excited about our prospects and our ability to continue to attract new listings as we further enhance our value proposition with more client-centric products and services. A great example of this is our new IPO Indicator, which we introduced earlier this year. The Indicator provides real-time transparency about a stock throughout the IPO open event, and client feedback has been very, very positive.

Another area of our business that continues to contribute meaningfully to our results is the information services segment. Over the last year, we have been reshaping our strategy in this business to align more tightly with the needs of our clients in a way that leverages our core expertise in data and index benchmarking. Our acquisition of Dorsey Wright and Associates is a good example of the sound execution of that strategy.

Since announcing this acquisition at the beginning of the year, we have experienced significant growth, with AUM up nearly 70% year-to-date and revenue run rates nearly doubling. More broadly, we have about 43% of the AUM licensed to Nasdaq indices in smart beta products, and we expect continued growth in investor appetite for smart beta strategies. We are excited to be in a leading position in this segment and to bring innovative products to our clients.

In data products, we've added new talent to the team and are investing in new kinds of informational and analytical products, with a goal of broadening our opportunity set while continuing to grow the value inherent in our current product portfolio.

I mentioned before, the most revealing aspect of our record performance this quarter is that it was primarily driven by organic growth in our foundational businesses. When you factor in the areas we're investing in the future, we believe there's much more growth and upside for this franchise. Let me highlight a few of them for you.

A perfect example of how we tap into this potential at Nasdaq is NFX, a new global commodities venture which we launched in late July. NFX is a direct response to our customers and their desire for more efficient and competitive energy market. Now in its third month of operation, we are seeing noteworthy uptake by the trading community, with over 70 firms having already executed trades on the platform and activity levels building. We set another record again yesterday.

One aspect of NFX 's performance we're particularly encouraged by is the rising open interest on the platform. Yesterday, we passed 300,000 contracts. Truly remarkable. This is including customer positions with durations reaching several years out on the curve, an indication of the confidence and support of end users, not just intermediaries and liquidity providers. We also believe strong open interest trends bode well for continued ramp in transaction volumes. We are extremely encouraged by our progress in the short time we've been up and running and are excited about the opportunity to grow this venue and hit the longer term objectives we've established.

A core principle at Nasdaq is that clients come first. We've always maintained that Nasdaq was more than a listing venue. We've expanded the ecosystem of solutions we offer companies at all stages of their development and the value we provide to them.

The Nasdaq Private Market, or NPM, is a good example of how we are filling an important need in the marketplace for private growth companies. This business represents a sizable opportunity for us. NPM has strong demand today, with 120 private companies using our platform to manage their liquidity and equity ownership needs. And there were approximately 20 additions this quarter alone, including such great companies as LegalZoom, Mixpanel and [FarFetched].

In addition, we are very pleased to announce today we've reached an agreement to acquire SecondMarkets Solutions. SecondMarkets is a recognized innovator in facilitating liquidity for private companies' securities. SecondMarket and its talented team will join the Nasdaq family and help to strengthen our offerings to clients, as well as add meaningful scale to our efforts with bicoastal operations.

We are continuing to find ways to inject innovation into this business and help enhance our offerings. In fact, we plan to bring further benefits and efficiencies to private companies through the use of block chain technology in NPM. We will bring a distributed ledger that will bring increased security, speed and efficiency to tracking a company's ownership. We will have the ability to settle and clear trades in 10 minutes, as compared to three days which we see in the public market. We have identified several clients who will be included in an initial beta pilot expected to launch by the end of this year.

Finally, another area where our efforts are positioning us to improve growth and profitability is in our corporate solutions business. We have made strategic investments in our core platforms built for IR, PR, communication and governance professionals. In addition, we have further integrated our content, insight and tools to further differentiate our offering, as well as enhance all of our client touch points, from back-office billing systems to account management.

The result of our efforts are starting to emerge. For the third quarter in a row, we are seeing positive net subscription sales, which is extremely encouraging as we work to transform the business and drive organic growth. In addition, we are on target for the launch of our fully featured version of the IR Insight platform, which is expected by the end of this year. IR Insights will provide us with a foundation to support innovative new product features and enhancements for the months and the years to come. In addition, by integrating information technology from our broader suite of solutions in unique ways to solve our customer's challenges, we can accelerate adoption of other corporate solutions products.

Up to this point, I have highlighted the various ways our model is moving the franchise forward, delivering for clients and shareholders. Now I want to spend a few minutes updating you on our deployment of capital. Our model generates significant cash flow and, with it, adds opportunities for us to be aggressive in how we deploy this capital.

Thus far in 2015, through our stock buyback program and our increased dividend, we returned $418 million in capital to investors, equal to 97% of our non-GAAP net income generated in the same period. And we're very pleased we've been able to deliver these concrete rewards from our success to our shareholders.

But more importantly, our future is built on how well we will seize new opportunities. A big part of our capital allocation strategy is ensuring we're investing in our future and in the core businesses that will drive our growth and our returns. We have the great ability to, one, return capital to our shareholders, two, invest in organic growth opportunities, and three, make informed value trading acquisitions.

We are as equally excited by our share buyback and dividend program as by our organic growth initiatives, such as NPM and NFX, and also by our acquisitions, such as SecondMarket and DWA. To me, it's truly ideal when you're in a position to invest at high levels for your future, while still returning meaningful amounts of capital to investors. We will continue to look for opportunities to best use our capital and that will provide meaningful growth and returns to our investors.

Finally, I would like to say a few words about how we measure success here at Nasdaq, because it's particularly important in light of the results we delivered this quarter. When we look at how we are growing as a firm, we don't only look at financial metrics, we also look at how our businesses are progressing. Our success metrics are based on how well we strengthen our competitive position. We know that when we focus on serving our clients and improving our products and solutions, financial performance will always follow. That is our mindset.

In addition, we continue to enhance and adjust our operational effectiveness and efficiency across the organization and are structuring our talent and resources so we are as effective as possible in running our business and serving our clients. This will always be key priority for us. I have confidence in our model and the future of this franchise, as we work to strengthen our competitive position to deliver results for our clients and shareholders.

Again, we are very pleased to deliver a record quarter for our shareholders. It is the visible result of good teamwork by everyone here at Nasdaq. I would like to thank our employees, our clients and our shareholders for their continued support. We are encouraged by all of the positive trends across our business during the quarter, and we are confident we are on the right path to take this franchise to new levels in the quarters to come. And with that, I'll turn the call over to Lee.

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**Lee Shavel** - *Nasdaq, Inc. - CFO*

Thanks, Bob. Good morning, everyone. The following comments will focus on our non-GAAP results. Reconciliations of the 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 want to start off, as I did the last few quarters, by highlighting the impact the stronger dollar had on our results, as it obscures, in many cases, the solid organic growth of our business. Excluding the impact of FX, our revenues would have been up $55 million, or 11% from the prior year, and operating income would have been up $30 million, or 13%. In order to provide a greater understanding of these effects on the business units, we continue to provide a schedule of FX impact on the revenues for each business unit on page 15 of the presentation.

So let's start by reviewing third quarter revenue performance relative to the prior-year quarter, as shown on page 3 of the presentation. The 6%, or $32 million, increase in reported net revenue of $529 million consisted of organic growth in the non-trading segment's revenue of $24 million, or 8%, due to growth in listings, information services and market technology, plus $9 million in revenues from the Dorsey Wright acquisition, reduced by a $12 million FX impact, for a net $21 million increase in reported revenues. Organic growth in market services net revenues of $22 million, or 12%, resulting principally from higher cash equity revenues, reduced by an $11 million FX impact, for a net $ 11 million reported increase.

Moving to page 4 in the presentation, we show how organic growth breaks down historically between the non-transaction, information services, technology solutions and listing services segments, which had 8% organic growth this quarter, and the volume sensitive market services segment at 12% for the quarter. Looking at our year-to-date 2015 results, we have achieved 5% organic growth for our non-transaction segments, consistent with our mid-single digit medium term guidance and returning to the level that we achieved in 2013.

In market services, we have achieved 4% organic growth for the year-to-date 2015 period, reflecting the positive inflection we've seen over the past two quarters with increased market volatility. On the bottom of the page, we reiterate our views on the medium term organic growth outlook for the non-transactional segments. And as I've said in the past, these views were meant to reflect multi-year, cross cycle periods and actual growth in shorter periods can be above or below these ranges.

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

Information services, on page 5, saw a $12 million, or 11% organic increase, plus a $9 million increase from the Dorsey Wright acquisition, reduced by a $3 million FX impact, for an $18 million net increase in reported revenues, while the operating margin came in at 73%, down slightly from 74% in the prior year, due to FX impact. This consisted of market data revenues producing an $11 million, or 12% organic increase, reflecting growth in tape plan and proprietary revenues, as well as index licensing and services, which saw a $1 million, or 5%, organic increase from higher non-QQQ licensing revenues, with a 20% growth in non-QQQ assets under management and higher futures volumes, reduced by a decline in QQQ assets under management and associated licensing fees.

Technology solutions, as shown on page 6, saw a $2 million, or 1% organic revenue increase, reduced by a $6 million FX impact, resulting in a $4 million reported decline. The operating margin was 15%, down from an exceptionally strong 17% in the prior-year period. This consisted of market technology revenues, which saw a $3 million, or 5%, organic increase due in particular to growth in our smart surveillance product revenues. New order intake was $83 million in the third quarter, and new order activity continues to be healthy, with a number of significant new contracts in the traditional market tech business, as well as SMARTS and BWise. And it's worth noting that the period end backlog finished at a record $738 million, up about 16% year-over-year.

Corporate solutions revenue saw a $1 million, or 1%, organic decline, in line with the prior quarter, as we continue to progress through the late stages of the integration and customer transitions from the acquisition of the Thomson Reuters corporate business. We continue to see solid momentum in the business, particularly with the third consecutive quarter of net positive subscription sales of $3 million, up from $2 million in the prior quarter and $1 million in the first quarter of 2015.

We also continue to receive very positive feedback on the new IR Insight platform to be launched on January 1, 2016, and saw particularly strong 23% new sales growth from the prior quarter in our legacy Thomson One platform, in anticipation of migration to the new platform.

In listing services, on page 7, we saw a $10 million, or 17%, organic increase in revenues, driven by pricing changes and an increased issuer base, reduced by $3 million of FX impact, resulting in a $7 million increase in reported revenue. Operating margin of 44% was up from 42% in the prior year. The US issuer base has 4% more companies at the end of the quarter compared to the prior-year period, while in the Nordics, the count is 7% higher.

Market services, on page 8, saw a $22 million, or 12%, organic increase in net revenues, reduced by an $11 million FX impact, resulting in an $11 million increase in reported revenue. Operating margin rose to 55% from 52% in the prior period as a result of the operating leverage implicit in that business.

Equity derivatives trading and clearing net revenues saw a 6% organic increase, primarily due to higher US derivative capture and higher industry volumes, partially offset by a decline in overall market share at our three US options exchanges. Cash equities trading net revenues saw a 39% organic increase, as higher cash equity average capture and increased industry volumes were partially offset by modestly lower market shares. Cash equity revenues were at our highest levels since the third quarter of 2011, and US cash equity revenues were at our highest levels since the second quarter of 2010.

Fixed income, currency and commodities trading and clearing net revenues saw a 13% organic decline from the prior year, with principally volume driven declines in several important product FIC product categories, like US fixed income and European energy, as well as the end of revenues from an eSpeed technology license which terminated, as planned, at the end of 2014. Access and broker services revenues saw a 5% organic revenue increase.

Turning to pages 9 and 14 to review the income statement and expenses, operating expenses increased by $25 million, or 9% on an organic basis, partially offset by $16 million in FX impact, resulting in a $9 million, or 3%, reported increase. I'd note here that while we saw an increase in compensation accrual in the current third quarter as a result of the strong operating performance, the prior year period conversely saw some revenue softness in both trading and non-transactional businesses that drove a release of certain accrued incentive compensation and thus, the unusually high year-on-year comparison. To minimize the volatility that quarter-to-quarter compensation accrual variations can bring to the year-over-year expense comparisons, I'd point to the year-to-date comparison, where operating expenses are up 3% compared to the prior-year period on an organic basis.

Non-GAAP operating income in the third quarter rose 13% on an organic basis, but this was partially offset by foreign exchange, resulting in a 10% reported increase; and non-GAAP operating margin came in at 48%, up from 46% in the prior-year period, reflecting the improvement of our trading businesses and their margin.

Net interest expense was $27 million in the third quarter, a decrease of $1 million versus the prior year, mainly due to the favorable impact of foreign exchange related to our euro-denominated debt. We also recorded non-operating income related to our equity method ownership interest in OCC.

The non-GAAP effective tax rate for the third quarter was 34%, at the midpoint of our 2015 33% to 35% effective tax rate guidance range for the year. Non-GAAP net income was $151 million, or $0.88 per diluted share, compared to $136 million, or $0.78 per diluted share, in the third quarter of 2014.

The $0.10 increase in our non-GAAP EPS year-over-year reflects core organic EPS growth of $0.10, an additional $0.02 due to acquisitions, principally Dorsey Wright, $0.01 due to higher other income, $0.01 higher due to lower share count, partially offset by a $0.03 impact of changes in foreign exchange rates, and a $0.01 decrease due to the higher effective tax rate.

Moving on to the balance sheet, cash flow and capital, please turn to slides 11 and 12. Our gross debt to EBITDA leverage ratio increased to 2.3 times from 2.2 at June 30, 2015, due to a small increase in our debt level as we drew on revolver capacity to fund the stock repurchases, partially offset by increased trailing 12-month EBITDA.

I want to take a moment to discuss the material repurchases in the quarter, which were well above recent average quarterly levels. The Company was in a strong position in terms of balance sheet flexibility, both in terms of our leverage, as well as the strong capital generation in the period. Valuation was attractive, especially relative to the valuations we were seeing for assets in the M&A market, and also considering the opportunity that the volatile market provided.

So we acted opportunistically, as we have in the past, to put a larger than typical amount of capital to work in the buyback program, continuing an aspect of our capital deployment discipline that has generated very high returns for Nasdaq shareholders over the years. We continue to evaluate opportunities to deploy capital across the full spectrum of internal, external and capital return alternatives, and are always looking for the best returns to guide our use of capital.

Thanks for your time this morning. And I will turn it back over to Ed.

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**Ed Ditmire** - *Nasdaq, Inc. - VP or IR*

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

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## QUESTIONS AND ANSWERS

**Operator**

(Operator instructions)

Rich Repetto, Sandler O'Neill.

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

Good morning, Bob. Good morning, Lee.

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**Bob Greifeld** - *Nasdaq, Inc. - CEO*

How are we doing, Rich?

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

I'm doing fine. I appreciate you both addressed the capital return program and especially the accelerated buyback. But I guess my one question would be on the follow-up to that, so you did -- you did draw down on the revolver, and this just wasn't a 2X or 3X, the prior quarter buyback, this was a 10X. And I'm just trying to see, when you look at the stock price, yes, it broke $50, but it had broke $50 in both the other, prior two quarters.

So just trying to understand a little bit more -- and I know you addressed it, both of you, in the prepared remarks -- but how you balance the three things, capital return, acquisitions and investment. And then what can we expect going forward? Can we see this lumpy buyback program going forward? I know shareholders like the buyback. But anyway, your color.

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**Bob Greifeld** - *Nasdaq, Inc. - CEO*

So Rich, not even a good quarter, or a very good quarter? I was living through your compliment there, Rich.

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

Excellent quarter, Bob. You outperformed.

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**Bob Greifeld** - *Nasdaq, Inc. - CEO*

Thank you. Thank you. I feel better now. I think Lee touched on it, but I would say this. Probably the trigger was, as I said before, we've looked at a lot of different acquisitions during the last 12 to 18 months, and some of the multiples that were being paid were, in our mind, somewhat eye-popping and somewhat representative of a little bit of an asset bubble. And we said, okay, if this is the state of play and it's going to be this way, and we have no interest in paying 18 times EBITDA, we probably have a better use for our capital and that is to buy our own shares, which obviously, we're not trading at that.

So I think ourselves in management and the board reflected upon it and came to that conclusion, and obviously decided it was a time to act. Now this obviously represents lumpiness, as you said. It's nothing that we can do on a consistent basis. But you do have to recognize that over the fullness of time, as you've seen in the last three to four years, we will be acquiring our shares when we think it represents a particular opportunity for us to create value for our shareholders.

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

Okay. I know. I follow that, the acquisition environment. But the levering up a little bit, I guess, is something new. But anyway, I don't want to ask any more questions. I got my one in. Thanks.

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**Bob Greifeld** - *Nasdaq, Inc. - CEO*

All right. Thank you.

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**Operator**

Chris Allen, Evercore.

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

Good morning, guys. Nice quarter.

**Bob Greifeld** - *Nasdaq, Inc. - CEO*

Thank you, Chris.

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

Just wanted to touch on corporate solutions. You mentioned that you're seeing positive subscriptions sales for the third quarter in a row. Wondering if maybe you could give us a reference in terms of how much material that is.

The revenue trajectory, obviously, hasn't been great. Sounds like a lot to do with FX. Just wondering where you stand, from a competitive pressure standpoint. I know that had been an issue in prior quarters. Just trying to get a better sense of when we can start to see the trajectory start to improve from here.

**Bob Greifeld** - *Nasdaq, Inc. - CEO*

Okay. So as we said before, certainly we will make progress with corporate solutions during this year. And I think under Adena's leadership, we've done a very good job there. But we also recognize there is certain element of a holding pattern to this year, in that we are spending a lot of time, effort and money, and I think very intense engagement with our customers, as we start the next gen product. So I think this quarter represents a strong trend line which we expect to accelerate as we go into the new product cycle in 2016. Adena, would you like to add to that?

**Adena Friedman** - *Nasdaq, Inc. - Co-President*

Sure. So Chris, I think that we are seeing definitely some clients very excited about the new platform. And as Lee mentioned, we are seeing acceleration of new sales in the IR Insight business because of the new platform coming down the road.

Also, Q3 does tend to represent a seasonally low quarter with regard to revenue, because of the fact that some of our revenue recognition comes from using certain services in a quarter, and there are fewer press releases issued and there are fewer web conferences held during the third quarter, just because of the holiday season. So that also tends to be reflected in the third quarter results for corporate solutions.

But overall, we are seeing positive momentum in the business. And the competitive landscape does continue to be very competitive, but we are feeling good about the trajectory of the business in general.

**Bob Greifeld** - *Nasdaq, Inc. - CEO*

And I would tie back to the comments I made in my prepared remarks. It's definitely a hallmark of Nasdaq here that we have to first look at our competitive positioning and how we were doing in that positioning, and certainly relative to our peers. And to the extent we improve that competitive positioning, the financial results will follow. So we saw evidence of that in the third quarter. And again, I highlight, we are spending a lot of time, effort and money for what will represent truly innovation in the IR space and we're excited to be able to launch that product going into the first quarter of next year.

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

Great. Thanks.

**Bob Greifeld** - *Nasdaq, Inc. - CEO*

Thank you.

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**Operator**

Rob Rutschow, CLSA.

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

Good morning, everybody.

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**Bob Greifeld** - *Nasdaq, Inc. - CEO*

How are you doing, Robert?

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

Good. I was hoping up to follow-up on Chris's question about corporate solutions. I think the product that you're rolling out is very impressive and should certainly help arrest some of the customer attrition you've had. I'm hoping that you might be able to give us some metrics around what your customer attrition is in the corporate solutions business. And even if you can't give us exact numbers, at least an order of magnitude that that new product might help address.

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**Bob Greifeld** - *Nasdaq, Inc. - CEO*

Yes. So I would say, one, we don't have exact numbers. And we can certainly think of how we'd come up with them. But we are, on a net basis, seeing growth in our customer list right now, so we're excited about that. And as I said, we're increasing the number of wins that we have, and this is all a prelude to major new products coming towards the end of the year.

Adena, do you want to embellish that?

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**Adena Friedman** - *Nasdaq, Inc. - Co-President*

Sure. So I think that we do, in fact, provide some information regarding our overall retention rates within the business. And we are experiencing just below 90% retention, but that generally has been consistent. There are certain parts of our business that are improving in those numbers and there's also certain parts of the business that are well above that.

But we do track that and we are seeing improvements in key parts of the business in the retention rates. But that retention rate includes what I'll call uncontrollable cancels related to mergers, acquisitions and bankruptcies, as well as other things in terms of clients having to move away from services due to budget constraints. At the same time, we also feel that we are seeing, I think, very good growth in those retention rates in some of our key products and we continue to track that very carefully.

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**Lee Shavel** - *Nasdaq, Inc. - CFO*

And maybe just add a little directional color, Rob, to Adena's response, is that in the third quarter relative to the second quarter, we saw improvements in all of our products from a retention standpoint, with the exception of our advisory product, which has been a competitive sector for us, and the

IR desktop retention remained steady over that period. So I would say kind of broad improvement. There always are going to be one or two products where we have faced some additional pressure. And in this period, advisory was that one.

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

Okay. Great. Thank you.

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**Operator**

Chris Harris, Wells Fargo.

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

Thanks. Good morning, guys.

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**Bob Greifeld** - *Nasdaq, Inc. - CEO*

How are you, Chris?

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

Doing well. Wondering if you could talk to any revenue synergies? And I'm really thinking mainly here of cross sell opportunities you guys might be getting out of all the business you put together. It's kind of hard for us to see that looking from the outside. But just wondering if you can comment if this is happening and to the extent it's happening.

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**Bob Greifeld** - *Nasdaq, Inc. - CEO*

Are you talking about any particular business?

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

No, just really across the entire franchise in the aggregate, whether you guys are seeing opportunities to cross sell, I know that IR, the Thomson Reuters acquisition was a new customer set relative to a lot of the existing customers at Nasdaq more broadly.

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**Bob Greifeld** - *Nasdaq, Inc. - CEO*

Right. So let me start with the transaction business. When you look at the initiatives we have, whether that be the TOM initiative, NLX, NFX, things we're doing with respect to our dark pool strategy, it's all based upon us building a solid foundation of relationship with our customers. We definitely take customer input to guide how we invest in internal R&D. And we're seeing definitely the fruits of that labor here.

Obviously on the corporate solutions side, our listing franchise, we have a deep relationship at the very highest level of those companies, and that's a natural point of leverage with us. But it's also important to recognize we have 10,000 customers, and many of them are not listed with us. And in that situation, the breadth of our product line allows us to walk the halls in a more comprehensive fashion than our competitors, who tend to be point solution providers, can do.

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

Okay. Thank you.

**Lee Shavel** - *Nasdaq, Inc. - CFO*

And I just want to add, again, some directional color. One thing that we're tracking in corporate solutions is, on a quarterly basis, the average number of products per client, average revenue per client, and we have seen steady progress in both of those metrics, which I think is a sign of continued success in working off of that existing customer base and selling additional products and generating more revenue from it. So that's something that we're watching carefully and are pleased with the specific progress that we've made over the past four quarters.

**Operator**

Ashley Serrao, Credit Suisse.

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

Good morning.

**Bob Greifeld** - *Nasdaq, Inc. - CEO*

How we doing?

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

Doing well. I was curious, if I look at all of the initiatives that you have right now, more on the trading side, the NFX, NLX, what's the current drag on EPS from a combination of those two?

**Bob Greifeld** - *Nasdaq, Inc. - CEO*

Lee, do you have that number?

**Lee Shavel** - *Nasdaq, Inc. - CFO*

Yes. So Ashley, first of all, both of those initiatives are within the gift expenses, which in aggregate is in the $30 million to $40 million, as we've provided from a guidance standpoint. But as we've said previously, NLX is approximately $0.02 per quarter and NFX is below that level. So that gives you some sense of the aggregate scale of those initiatives on a quarterly basis.

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

Okay. And just following up on trading, one of the initiatives that the press is reporting that you're going to be launching next year is FX. I was hoping you could share some color on what your intentions are in that arena and how do you see yourself differentiating yourselves from your peers, because that happens to be one market where pricing definitely matters.

**Bob Greifeld** - *Nasdaq, Inc. - CEO*

Yes. So I can't speak for what you're reading in the press, but we haven't announced any FX initiatives that are launching next year. I am sitting here in London with Hans-Ole. Hans-Ole, have you announced anything without telling me? (Laughter) So I don't know where you're getting that information, but it's not correct.

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

So there is no initiative in play?

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**Bob Greifeld** - *Nasdaq, Inc. - CEO*

Right.

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

Okay. All right. Thanks for taking my questions.

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**Operator**

Kyle Voigt, KBW.

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

Hello. Thanks for taking my questions and congrats on a good quarter. Just turning to NLX again, given that another large exchange has just announced the planned launch of an interest rate futures exchange in Europe, can you just talk about your commitment to NLX and how you feel that you can fare from a competitive perspective, or what the value proposition will be going forward? Thanks.

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**Bob Greifeld** - *Nasdaq, Inc. - CEO*

Definitely. Definitely. So one, I would say is obviously that announcement was not unexpected and I think it was expected many months before. So it was no surprise there. But clearly, we're in close touch with our customers. And I would state that since that announcement, we have reconfirmed with our customers that there's no change in plans they have with respect to NLX. I've previously stated that we needed to proceed with NLX2 with some core support in a very meaningful way from some of the major banks, and we're continuing along that path. And right now we remain optimistic that we're going to get there.

And I also would want to make it clear that the world that we envision in the listed futures world is not that dissimilar from what we see in the equity world, where we expect them to have more than one trading venue clearing through a common clearinghouse. So if we have LCH playing the essential role that DTCC would play in the US equity world, we certainly see that our customer could trade on one venue and have that then, as long it's clearing in the same venue, then it's basically fungible. And it puts the customer in a position where the different trading venues can compete quite aggressively against each other. And you have a situation in the listed futures world where the customers have smart order routers -- and if they don't, they're planning to have them -- which allow them to create essentially a virtual book between the different venues.

So that's the world we see developing. It's one we're very comfortable with. It's one we compete in in our transaction businesses today. And when you see the results of our transaction businesses in this quarter, in particular, you see that we can run in that competitive world and how efficiently we run our businesses, you can still run it with a very healthy margin. So that's where we see the world developing.

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

All right. Thanks a lot for the color.

**Operator**

Ken Hill, Barclays.

**Ken Hill** - *Barclays Capital - Analyst*

Hello. Good morning, everyone. I wanted to touch on technology again but talk a little bit about the market tech side. I think one nice piece for you guys have been smarts. And there was some news, I think earlier in the quarter, about you guys supplying market surveillance technology for a Chinese security exchange and some mainland firms. So how are you able to make inroads there in what's historically been a pretty tough place to do business? And then on a related note, you guys announced surveillance for monitoring dark pools. How do you see those two opportunities unfolding and actually adding to the revenue picture over time?

**Bob Greifeld** - *Nasdaq, Inc. - CEO*

Yes. So I'll start and say, one, obviously smarts has been a very strong acquisition for us and it's the model we'd like to use where as a smaller, successful company, we were able to lever our distribution capability and also significantly ramp up the R&D spending where we came out with the products for the brokerage community, where at the time of acquisition, it was primarily geared around exchanges and/or regulatory bodies. And so you saw evidence of additional product set, as you mentioned, with the dark pool, and we have more products coming.

I say across the planet, you have increased intention, and we think that will continue, for surveillance. It's necessary in the markets that we live in. And clearly, whether in China, whether in Europe or the US, that is a common global phenomenon. And our job is to make sure we're delivering the right product and services to meet that growing and real need. And I think the team has done an exceptional job doing that. So the need for surveillance is no different in China than it is in other parts of the world.

Adena, do you want to add to that?

**Adena Friedman** - *Nasdaq, Inc. - Co-President*

I would just add that we've been in Hong Kong for well over a decade. We've had a good team there. And we've been working with exchanges, as well as broker-dealers in Asia, for many, many years. So it is a testament to the relationships that we've been able to develop over the years to be able to find opportunities to work with exchanges, as well as broker-dealers in China, as well as all over Asia. And I think that the team's done a great job there.

**Ken Hill** - *Barclays Capital - Analyst*

Thanks for taking my question.

**Operator**

Michael Carrier, Bank of America.

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

Thanks, guys. Just a question on the new initiatives in the private markets. It seems like you're increasing maybe your focus on that, on that space. So I just want to get a sense, what's that target market? Where do you see those revenues over the near term, or is it more of a pipeline where you establish relationships with those firms and then obviously, when they, at the IPO, then you have them longer term, as well? And then if I can do one side, just really on the market data, I just wanted to see if the audit revenues this quarter were that significant or not?

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**Bob Greifeld** - *Nasdaq, Inc. - CEO*

All right. So let me start with Nasdaq Private Markets. And it's important to recognize that we seized on this opportunity based upon the passage of the Jobs Act. And the Jobs Act said that you could stay private with up to 2,000 shareholders and employees did not count. The prior rules were 500 and employees did count. So we saw a company could go a long way in its evolution and stay private, and we had to make sure that we provided solutions for them. So certainly, the relationships we build with these companies in the pre-IPO phase, we have a fundamental belief that that will help us with our IPO win rate. So that's an element to it.

But that's a secondary benefit, because we think the market by itself is quite exciting, and we certainly believe that a company similarly situated with respect to size and/or complexity will earn for us an equal amount of revenue, if not greater, than it would if it was in a public company context. But our job is to meet the customer need where companies want to stay private for a longer period of time. We actually support that notion, in general, in that you should only come public when you have a mature business model that can withstand the rigors of these quarterly calls.

So we think there will be increasing number of private companies, and we're there to meet the totality of their needs. So within Nasdaq Private Market now obviously being combined with SecondMarket, they have a lot of needs that we have developed for a public company and we have to make sure we target that for the private company.

We think the liquidity needs of these private companies will evolve over time. We run what is known as SLPs today. We do it on an episodic basis, and we are starting to see some trend line were companies want to run these liquidity programs on a more consistent and regular basis. We also see the broadening of participation in these liquidity programs, where they are today primarily employee-based, and we certainly think it will evolve to where early stage investors can use this mechanism for liquidating their position or second stage investors can use it for coming into the marketplace.

So it's something that we think has tremendous potential for us. And as I said, we think the revenue potential per company in the fullness of time is equal to or greater than the revenue potential of a company in the public market context.

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**Lee Shavel** - *Nasdaq, Inc. - CFO*

Okay. And Michael, on your question on audit, audit was up just slightly. It was up $1 million from the prior quarter and up $2 million from the year-ago quarter. So I'd say consistent with the lower level of audit fees that we've had. But it was a slight increase from prior periods.

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

Okay. Thanks a lot.

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**Operator**

Brian Bedell, Deutsche Bank.

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

Good morning, folks.

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**Bob Greifeld** - *Nasdaq, Inc. - CEO*

How are you doing, Brian?

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

Good, good. How are you? Congrats on a good quarter, also.

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**Bob Greifeld** - *Nasdaq, Inc. - CEO*

Thank you.

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

Just back in on the corporate solutions side, given the IR product ramping up in the first quarter and attrition coming down and the headwind that you had in 2015, this year, from foreign exchange translations. Should we expect -- can you make a statement that you think technology solutions revenue all in, inclusive of the market technology, can actually exceed your mid-single digit growth long term outgrowth in 2016? And maybe if you want to just talk again about the operating margin that you see in that segment with the integration going very well? Thanks.

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**Bob Greifeld** - *Nasdaq, Inc. - CEO*

Yes. So Brian, I do want to start by answering that question in a different way. I believe right now that the corporate solutions business has to be primarily judged by how good our products are, how good they are relative to the competition, and what momentum do we have with our customers. The financial results will follow if we do these things right in 2016.

So great credit to the team. I think we've cleaned up what I'll call the operational aspects of the business over the last year or so. Our touch points with our customers have improved quite dramatically. We're seeing signs of that in the financial performance, but more importantly, as we deal with our customers they recognize that we are on the move, we're making progress, and you have the whole world anxiously awaiting now our next gen product.

And as I've said previously, we are in the unique position to take our development might and our development muscle and turn it to this sector of the marketplace. So we don't have any competitors of our kind of technology capability. And we're investing in it. We're investing heavily in it. And we're excited with the progress. The team is delivering on time, on schedule, hopefully, we will finish on budget, and good things will happen from there.

The other general point, are you in a market segment once you are more competitive? That can grow over time. And we certainly believe that corporate solutions is really strategically placed. To be running a public company today is an intense endeavor and you have an increasing need for information to help manage that and then also communicate to your shareholders and your stakeholders, and we're there positioned to meet those needs.

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

And any kind of clarification on the operating margin that you're forecasting for technology solutions in 2016?

**Bob Greifeld** - *Nasdaq, Inc. - CEO*

No. As I said, I will be focused on that soon enough, but right now, we're making sure the team is doing all the right things. This is a function, you do the right things, the margins will come. Now if you're expecting this business to have margins like we have in index and data, then we won't get there. So I don't want to create any false expectations. But we certainly know what a world-class software company should have as margins and that's clearly where we're going to get to.

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

Okay. Thanks.

**Operator**

Ken Worthington, JPMorgan.

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

Hello. Good morning. Can you share your views on the evolution of electronic trading of fixed income? And then together, can you update us with how your eSpeed initiatives are progressing? Thanks.

**Bob Greifeld** - *Nasdaq, Inc. - CEO*

Right. So I would say certainly that you will be witnessing a fundamental change in the fixed income market over time. But it's also wrong to think that it's going to look like the equity market over time. It has different dimensions to it, different complexities to it which will lead it down a different path.

Clearly, we identified US government Treasuries as a place for us to start, because that's the one area of fixed income that does look and feel like the equity market does on a fully deployed basis. So we are keenly aware of what's going to change in fixed income in general. We have views of where it's going to end up. And then obviously, we have to pay attention to where it's a proper place for us to enter that market.

With respect to eSpeed, I think I referred on prior calls to the fact there is change in the market and you see a number of our customers have traded in the dark in an increasing basis. And I think under Hans-Ole's leadership, the team has come up with an innovative approach that's shifting market structure. We had the first launch of it just this past Monday. And it's called eSpeed Elect, and it allows segmentation in the customer base, so customers can choose who they want to trade with and give the pricing that's appropriate to that customer base, and it also allows them to do some of those transactions, assuming they're respecting the lit market, in the dark.

In many ways, it's a market structure we had envisioned for the US equity market structure. We were able to put it into the fixed income market, to the Treasury market, and we're excited about the prospects. It's obviously way too early to declare anything today. This week was a semi-beta launch, where we came out with it in a limited basis. But we'll see full release of it as the quarter waxes on.

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

**Hans-Ole Jochumsen** - *Nasdaq, Inc. - Co-President*

Just one thing. As Bob already have expressed, we are extremely customer focused and centric, and it also means that we have a dialogue also on the European and the US side with the market participants in the fixed income side about how to address the challenge in the fixed income market going forward. And broadly speaking, part of that is increased product cost of capital coming out of regulation and the past requirements. The other element is new regulation, like for example, the new exchange regulation in Europe in (Indiscernible), which definitely influenced the fixed income market.

But also, the last two days conference organized by Fed in New York, showing us that there is a high likelihood that we will see more regulation also coming into the US Treasury market. So we stay in very close contact with our customers to make sure that we develop solutions together with them.

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

Great. Thank you very much.

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**Operator**

Thank you. I'm showing no further questions at this time. I'd like to turn the call back over to Mr. Greifeld for closing remarks.

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**Bob Greifeld** - *Nasdaq, Inc. - CEO*

Great. Well, first off, thank you, everybody, for attending this call today. As I said in my prepared comments, this was truly a remarkable quarter for us, and we congratulate the team on great execution. We are seeing the power of the business model, but it's also important to highlight that this is a balanced quarter. Our results were in no way shape optimized for the quarter. If anything, you could say that our investments in the future increased during the quarter, which we were proud to do, but we also balanced that with a very strong return of capital to our shareholders.

So in many ways, we're pleased with the quarter. But most importantly, it gives us the platform to continue to grow and continue to provide returns to our shareholders. So thank you for your time, look forward to talking to you in the near future.

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**Operator**

Ladies and gentlemen, this concludes today's conference. Thanks for your participation and have a wonderful day.

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