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NDAQ - Q4 2014 NASDAQ OMX Group Inc Earnings Call

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OVERVIEW:

NDAQ reported 4Q14 revenues of $517m and non-GAAP net income of $129m or $0.75 per diluted share.

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CORPORATE PARTICIPANTS

Bob Greifeld *NASDAQ OMX Group Inc - CEO*

Lee Shavel *NASDAQ OMX Group Inc - CFO*

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

CONFERENCE CALL PARTICIPANTS

Ed Ditmire *Macquarie Capital Securities - Analyst*

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

Mike Carrier *BofA Merrill Lynch - Analyst*

Chris Harris *Wells Fargo Securities, LLC - Analyst*

Ken Worthington *JPMorgan - Analyst*

Brian Bedell *Deutsche Bank - Analyst*

Ashley Serrao *Credit Suisse - Analyst*

Alex Blostein *Goldman Sachs - Analyst*

Neve Alexander *Keefe, Bruyette & Woods, Inc. - Analyst*

Neil Stratton *Citigroup - Analyst*

Chris Allen *Evercore ISI - Analyst*

PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the Nasdaq fourth-quarter 2014 results conference call.

(Operator Instructions)

As a reminder this conference is being recorded. I would now turn the call over to your host, Ed Ditmire, Vice President of Investor Relations.

Ed Ditmire - *Macquarie Capital Securities - Analyst*

Good morning, everyone, and thanks for joining us today to discuss Nasdaq's fourth-quarter 2014 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.

Bob Greifeld - *NASDAQ OMX Group Inc - CEO*

Thank you, Ed. Good morning, everyone, and thank you for joining us today to discuss Nasdaq's fourth-quarter 2014 results. We are pleased to deliver another strong quarter for our shareholders, with record non-GAAP earnings per share of $0.75, up 9% year over year. Our non-GAAP operating margins were 43% during the fourth quarter, a 300-basis-point improvement from a year ago and at multi-year highs.

When you look back on the results this quarter -- and really the entire year -- what emerges are new higher baselines we've established for our revenue, profitability and earnings metrics, as well as an improved strategic alignment between our people, our products, our operational expertise with our customers. Our revenue, non-GAAP operating income, and net income all reached record levels during the year, but fundamentally, I see this as just a starting point from which we can build.

As our business continues to evolve far beyond our grounding in the equity world, the businesses we are in are more diverse than ever before and operate really as complementary ecosystems. As we review our businesses, in addition to the obviously successful financial metrics, we focus on our relative competitive position in the marketplaces in which we serve. I am happy to report that the overwhelming majority of our businesses are in a better competitive position than one year ago. This is the best compliment possible for the management team and all the employees here at Nasdaq.

The changes we made during the year to evolve our management structure and to expand our product set across all businesses reflect the evolution of our business and the market realities in front of our clients today. We are confident about the path we are on, with operational efficiency continuing to be paramount in our ability to continue to serve our customers and grow this franchise.

In 2014, we saw our best year in the IPO market in over a decade. NASDAQ capitalized on this year with a 60% win rate of all IPOs in the US, and it was also the best year across our Stockholm and Nordic markets since the year 2000. All this helped to deliver 5% growth in our global listings base, compared to the prior year. Truly, an outstanding year for IPOs and a large number of companies that selected NASDAQ certainly underscores the compelling value proposition that we offer to the companies who list here.

In addition, we're also the beneficiaries of improved volume in the markets and also made marked progress in expanding both the functionality and the product offerings in our trading business, contributing to strong market share performance. As a result of executing our strategy well in an improving environment, we finished full-year 2014 with net cash equity trading revenues 17% higher, while strong market share has also positioned us to continue to realize the benefits if volume remains constructive in 2015.

Turning back to this quarter, we were encouraged by the upward momentum we saw in organic growth. In the fourth quarter, organic growth rose to 3%, up 400 basis points from the third quarter, and contributed to a year that delivered solid mid-single-digit organic growth in the non-transaction businesses, in line with our longer-term outlook and the positive organic growth in the trading businesses for the first time in many years. After volumes stabilized over the last few years, we saw an inflection point in 2014. Overall, we are confident we are doing the right things to grow our business in meaningful ways.

I'd like to get into a little more detail on the broad highlights that helped define our quarter and our year, and to demonstrate the progress we are making to expand our capabilities and increase the value we deliver to our customers. As I mentioned previously, clearly, one of the highlights to our year was a strong return on the IPO market. This helped drive strong performance in the listing services segment and also signaled that investor confidence is returning, something we are obviously happy to see.

We finished the year with 189 IPOs and total proceeds raised of over $22 billion. To put this in some context, this far and away eclipsed our strong 2013 IPO total of 126. We were the only exchange globally to surpass the 150 IPO listings in 2014. We have an unmatched set of product and services that truly allow our companies to be more efficient and effective in reaching their stakeholders. This is what sets us apart from our competitors.

Our market site tower in Times Squares embodies, in a sense, our storefront to the world and is a fantastic stage to our listed companies. This year, we completed a major renovation in the market site, significantly increasing our ability to serve our clients and provide them with a world-class venue to mark important milestones as they grow and a home away from home to reach the investment community and stakeholders.

In addition, we made significant functionality enhancements to our IPO Cross, which now provides even greater levels of transparency and control when new issuers come to the market. To that point, we welcomed some tremendous brands in 2014 including GoPro, TrueCar.com, Virgin America, and Weibo. And just recently, Walgreens, an over $70-billion market cap company that for over 80 years was listed on the rival exchange, decided to switch to NASDAQ.

So far this year, we are encouraged by the healthy IPO pipeline we are seeing. In our market services segment we continue to focus on our customers and how we can leverage our core assets to add value across the entire offering. Our US derivatives business finished the year with the leading market share in US equity and ETP options for the fifth year in a row -- truly remarkable considering NASDAQ has only been in the options business for about six years.

With respect to eSpeed, we've embarked upon the most significant product expansion since the platform's founding 15 years ago, following the completion of important core technology enhancements earlier in 2014. New products, like the electronic Treasury bills, are resonating with our customers, and we averaged about $5 billion in notional daily volume during the fourth quarter.

Just this past Monday, we did a soft launch of our new short-duration bond note product, known as short shorts, for issues with 18 months or less maturity. Throughout the remainder of 2015, we expect to be launching coupon rolls and off-the-run securities, filling out the remainder of the Treasury Yield Curve. So, we feel good about the stable of products we have in our pipeline and our ability to grow the platform.

In the Nordics, clearly a milestone for us this year was the fact that we were the first clearinghouse to achieve EMIR compliance certification to offer true multi-asset derivatives clearing. This stamp of approval not only validates the central clearing model that our customers want, but also enables us to move forward at a rapid pace with new product introductions.

Now moving on to a Technology Solutions segment. We made equally strong progress in further developing these businesses and aligning our strategy with our customers. As a market operator for over four decades, we built an expansive set of technology solutions and expertise that is really unmatched in the marketplace. To this end, we continue to see strong customer uptake for our products and solutions across market technology businesses.

We have the ability to enable our customers to expand their capabilities more quickly and efficiently, and this was certainly a driving factor behind many of the new clients and extended partnerships we established during the year, most notably in China with the Shanghai futures exchange, the Philippines Stock Exchange, and recently with JPX in Japan for development and support of a next-generation derivatives trading system.

In the fourth quarter, Market Technology set new highs for quarterly order intake, at $193 million, including record new order take at both BWise and SMARTS Broker. And Market Technology set a new, record period-end backlog at $704 million -- truly impressive. The Market Technology segment grew 5% over the full-year 2014, and 10% if you exclude the FX headwinds -- so, a great year. We continue to be encouraged by the growth opportunities we are seeing in this business and our ability to deliver core trading, clearance, surveillance, and enterprise risk management solutions to customers all over the world.

Now, turning to Corporate Solutions. We continued to make operational progress and enhancements to the product and service offerings to better align with our customers. There is no more clear example of our long-term strategic focus than the progress we've made with our IR NexGen platform. We have been presenting a beta version of this product in road shows since the fall of 2014, and the customer response has been tremendous.

We believe this offering truly has the potential to set a new standard in the IR space. But, even more importantly, it will provide a robust platform for new product enhancements and growth opportunities in the months and the years to come from our Corporate Solutions businesses. We are looking forward to getting the first version of the product in our customers' hands before the end of the second quarter this year as part of a phased 2015 rollout.

Moving on to Information Services. This is certainly one of the great cornerstones of our business here at Nasdaq. In our index business we've grown revenue 22% during 2014, as period assets under management and licensed ETPs grew 8% and we've also substantially expanded the product set by increasing the number of products licensed to our indices by 12%. A material part of that growth story has been in the Mergent Dividend Achievers franchise, which has grown AUM by over 200% since we acquired it two years ago.

This experience gives us confidence to agree this month to acquire Dorsey, Wright & Associates, a provider of smart beta indices and portfolio analytics based on their thought leadership and relative strength methodologies. We see similar opportunities to accelerate product development, including adding international and non-equity products, as well as to broaden DWA's already strong ETP sponsorship partnerships. In addition, DWA will leverage the highly scalable NASDAQ Index Calculator and our world-class data dissemination capabilities.

In data products, organic growth remains steady. We saw a particular strength, again, in the Nasdaq BASIC offering, which realized a 48% increase in subscribers year over year, even as the product experienced some moderate price increases. Nasdaq BASIC delivers a very effective, lower-cost option to the consolidated tape, and it serves our customers well, saving some of them millions of dollars per year. And it has become an established industry standard in only its few short years of existence.

While 2014 set another record revenue level in Information Services, we certainly see substantial opportunities to grow this business. We're excited to welcome Salil Donde to Nasdaq as EVP of Information Services, reporting to Adena. Salil is an innovative entrepreneurial leader who will bring new perspective to our Information Service business, something we will expect will drive new opportunities for us across this important segment.

Now, in addition to the progress we made across our core businesses, we are always looking for ways to increase value for our shareholders and customers by investing in new initiatives that we believe will provide growth and opportunity for us. When we run our core businesses as efficiently as we do, we're able to return significant capital to shareholders, but also invest in R&D. Looking at our performance, I think that it shows we balance these quite well.

In terms of investments, NASDAQ Private Market is continuing to gain traction and client-list interest. There are now more than 60 companies using NPM products today. They range from promising start-ups such as Tango and Mobli to well-established private companies like Motley Fool. We continue to be encouraged by the progress we're making in serving this important segment of the market, and this clearly will be a growth driver for us in the years to come.

At NLX, we made significant efficiency improvements to better lever core Nasdaq assets. As a result, the EPS impact has been reduced from $0.04 to $0.05 per quarter to $0.02 per quarter. We are also excited by the progress we are making in discussions with the leading players in the industry to become true partners in the NLX venture.

Looking forward beyond NLX, we are thrilled when customers from time to time provide us with new opportunities to offer competitive alternatives that leverage our technology and help deliver increased efficiencies and business opportunities. We evaluate those opportunities and only invest when we think there is a good prospect for success and attractive returns for our shareholders.

Now I'd like to expand a little on some of the key opportunities in areas of focus for us in 2015. When you look across our business, we continue to see greater opportunity to serve our customers in new ways. Let me highlight just a few of them.

As I mentioned, we recently announced the acquisition of Dorsey Wright in our index business. This acquisition will help drive Nasdaq's capacity to grow its index business across asset classes and geographies with substantial opportunities in index licensing. The ETF market is growing at an impressive rate and the smart beta segment of that market is growing at even an higher rate. We truly believe that this is a good marriage of their products and our technology and distribution channels that will offer our customers greater choice and drive growth opportunities for us.

In addition, Dorsey Wright brings a strong set of relationships with the retail advisor community, which it serves with portfolio, modeling, analytics and other products. We look forward to exploring ways of serving this retail advisor community in better and broader ways and believe there could be an attractive revenue synergies for us. As I mentioned before, eSpeed is in the early stages of what should be a very significant product menu expansion for us and help drive growth across the platforms in the quarters to come.

Corporate Solutions will see the completion of a substantially revamped and upgraded product set during 2015, with the NexGen platform forming the core, which, along with organizational enhancements to better align with our customers, will position us to grow significantly over the long term.

Our listing franchise enters 2015 with a materially expanded customer base, as well as additional tailwinds such as certain pricing adjustments in the US listings business. We also have a higher market capitalization of Nordic listings, which drives revenue and a strong operational momentum, as I mentioned, at NASDAQ Private Market.

Our trading franchise is seeing strong market positions, allowing it to capitalize from a trading environment in early 2015, which seems likely to build on 2014's positive inflection point. January month to date, the volatility numbers are up 30% higher than the 2014 average. And I would remind everybody that for every 10% increase in trading revenue, we get an extra $0.20 per share in annual earnings.

In closing, it was another record quarter and another strong year for this franchise, which highlights the strength of our model and the clear path we have established for growth. Perhaps even more exciting to me is that we have the management structure in place that best positions us to grow over the medium and long term. One of the great advantages we've always enjoyed at Nasdaq is the great talent and strength of our bench, and we are better organized to utilize those talents and skills than ever before.

As a result of the work we've done to transform our business we have a new baseline from which to measure our performance. And, even more importantly, we are confident in our ability to deliver meaningful growth and return to our shareholders from these new benchmarks we've established.

With that, I will now turn the call over to Lee, who will go into the numbers in more detail.

Lee Shavel - *NASDAQ OMX Group Inc - CFO*

Thanks, Bob. Good morning, everyone. The following comments will focus on our non-GAAP results. Reconciliations of GAAP to non-GAAP results can be found in the attachments to our press release and in the presentation that's available on our website at ir.nasdaq.com.

I want to start off by highlighting the impact the stronger dollar had on our results this quarter, as it obscures, in many cases, solid organic growth that we saw in the business. Revenues of $517 million were reduced by $20 million from the prior-year quarter as a result of the stronger dollar and, excluding FX impact, grew 3%. Operating expenses were down $11 million due to foreign exchange, but even eliminating this impact we were able to reduce expenses organically by $6 million, or 2% from the prior year. These combined organic results contributed to operating income growth of 5%, excluding the FX impact, and would have produced $0.04 higher non-GAAP EPS.

In order to provide a greater understanding of these effects on the business units, we are providing a schedule of the FX impact on the revenues for each business unit on page 14.

I'll start by reviewing our fourth-quarter revenue performance relative to the prior-year quarter, as shown on page 3 of the presentation. The 1%, or $3 million, decline in reported revenue of $517 million consisted of organic growth in subscription and recurring revenue of $9 million, or 2%, from growth in the listings, data products, and index licensing and services, offset by $13 million due to the impact of foreign exchange, for a net $4 million decrease in reported revenues. It also included organic growth in transaction-driven net revenues of $8 million, or 4%, from significantly higher cash equity trading revenue, offset by $7 million due to foreign exchange, for a net $1 million increase.

If we turn to page 4 in the presentation, we show how that organic growth breaks down historically between the non-transaction Information Services, Technology Solutions, and Listing Services segment, which had 4% organic growth this year, and the volume-sensitive Market Services segment, which had 2% organic growth for the year. On the bottom of this page, we reiterate our views on the medium-term organic growth outlook for the non-transactional segments, which we continue to be in line with for our 2014 performance. I'll reiterate what I've said in the past that these views were meant to reflect multi-year cross-cycle periods and actual growth in shorter periods can be above or below these ranges.

I'm now going to go over some highlights within each of our reporting segments. All comparisons will be made to the prior-year period unless otherwise noted. Turning to page 5, we have changed the business segment revenue categories, beginning this quarter, to reflect changes in the way we're organized and are managing the business. Please note, consolidated segment revenues are unchanged.

In particular, the US and European revenues have been combined in all of our businesses, and in the market services segment we've moved to three categories of trading revenues, as managed by Hans-Ole Jochumsen and his team. They consist of equity derivative trading and clearing; cash equity trading; and fixed-income currency and commodities, or FIC trading and clearing, which includes our energy and other commodities businesses, eSpeed, and European fixed-income clearing operations, our NLX London futures exchange, as well as revenues associated with our Nordic clearinghouse; and, finally, access and broker services which remains unchanged. Included in our earnings press release is a table showing our revised revenue format going back the last four quarters and three years.

In Information Services on page 6, we saw a 6%, or $6 million, revenue increase, with operating margins steady at 70%. Data products had a 5%, or $4 million, increase in revenues, due largely to growth in Nasdaq BASIC revenues due to both user growth and the impact of a 2014 pricing change, partially offset by a negative $2-million impact from FX. Index licensing and services grew revenues 10%, due principally to the growth in assets under management in exchange-traded products licensed to NASDAQ indices, which rose 8%, to $99 billion, at the end of the quarter.

In early January, we announced we have agreed to acquire Dorsey, Wright & Associates, a leading provider of smart beta indices and portfolio analytics featuring relative strength methodologies, where DWA is a longstanding thought leader. At closing, which we anticipate will occur tomorrow, DWA is expected to add about $5 million in quarterly run-rate revenue, split fairly evenly between our data products and index segments, and $2 million to $2.5 million in quarterly expenses.

Moving to Technology Solutions as shown on page 7, we saw a 9%, or $13 million, revenue decline and the operating margin was flat at 14%. Market Technology revenues fell 12%, or $8 million, due to negative FX impact of $7 million, the recognition of $3 million of previously deferred revenues at BWise in the fourth quarter of 2013, and lower seasonally driven change request revenues. While the year-over-year comparison was unfavorable in the fourth quarter, full-year performance was solid, with 5% year-over-year revenue growth, excluding the impact of the fourth-quarter 2013 $3-million revenue recognition discussed above, and 10%, excluding foreign exchange.

As Bob mentioned, the new order intake was a record, at $193 million, in the fourth quarter, and the backlog is at a record $704 million, which is 7% above the same period last year, supporting continued strong growth in the years to come.

Corporate Solutions revenue fell 6%, or $5 million, year over year, reflecting our extension of certain subsidies to legacy Thomson Reuters Corporate Solutions customers, which reduced revenue by $3 million per quarter in 2014, as well as other declines in investor relations products, and $1 million in the negative FX impact, partially offset by higher governance and multimedia revenues. Organic growth was material in the Directors Desk governance products, where we saw 18% growth in Directors Desk users and in our Globe Newswire distribution business.

The number of press releases published rose 8%. But, broadly across our offerings, we continue to face competitive challenges as we advance the integration and upgrade of our key product platforms. We remain confident that, as we demonstrate our new capabilities and features, especially when the phased launch of our NextGen investor relations platform is complete in late 2015, we will have a suite of solutions for corporate executives that sets a new higher bar for the industry and an organization fully aligned to support growth over the longer term.

When we announced the acquisition of the Thomson Reuters Corporate businesses, we identified $35 million in cost synergies to be realized in combining them with our legacy businesses. These cost synergies were the largest driver to bring the Technology Solutions segment from a high-single-digit margin to a 20% operating margin goal. We are currently ahead of schedule on realizing the cost synergies and now expect to realize total cost synergies above the $35 million by the end of 2015. However, revenues are not where we want them to be at this point, due to a variety of reasons including elevated competitive pressures during this product and solution investment and transition phase, as well as substantial foreign exchange headwinds, which are particularly impactful on our Market Technology business.

With this in mind, we now expect to reach mid- to high-teens margin levels in the fourth quarter of 2015, recognizing that the fourth quarter tends to be our seasonal margin peak. We expect to see continued and steady progress on the Technology Solutions margin as we work assiduously towards achieving our 20% goal in the medium term.

In market services, on page 8, we saw a $1-million increase in net revenues as organically higher net revenues of $9 million were mostly offset by $8-million negative FX impact. Operating margin rose to 49% from 43% in the prior period, due to both lower core expenses and $2 million in regulatory fines collected, which are accounted for as a contra expense. Equity derivatives trading and clearing net revenues fell $1 million due to a $2-million impact of FX, partially offset by higher industry volumes. Cash equities trading, net revenues rose $9 million as higher volumes, primarily due to higher industry volumes in both the US and the Nordics, as well as higher US market share, were partially offset by $2 million in foreign exchange headwinds.

Fixed-income currency and commodities trading and clearing net revenues fell $7 million from the prior year, with declines in most FICC product categories, about $2 million in decline due to the scheduled reduction of revenues associated with an eSpeed technology license customer, and $2 million in foreign exchange headwinds. In access and broker services, revenues were unchanged at $64 million, with organic growth offset by $1 million in FX impact.

In listing services, on page 9, we saw a 5%, or $3 million, increase in revenues due to an increased issuer base and more new issue activity, while foreign exchange impact offset higher market capitalization of issuers on the European side. Operating margin of 38% was down 2 points from the prior year due to increased compensation and other temporary expenses associated with strong growth in the issuer base in 2014. The issuer base has 5% more US companies at the end of the quarter compared to the prior-year period, while in the Nordics the count is 4% higher, with an 8% higher market capitalization.

Turning to pages 11 and 17 to review the income statement and expenses, non-GAAP operating expenses decreased by $17 million, or 5%, from the prior year, due to $11 million in FX impact and $6 million of operational declines, including the impact of the expense reduction initiatives in earlier 2014. Organic expenses fell 2% this quarter, assuming constant currency, versus the prior-year period. Non-GAAP operating income in the fourth quarter of 2014 was $221 million, up 7% from the prior-year period. Non-GAAP operating margin came in at 43%, up 3 points from the prior-year period.

Net interest expense was $26 million in the fourth quarter of 2014, a decrease of $2 million versus the prior year, due to both lower levels of debt and the impact of foreign exchange on our euro-denominated debt. The non-GAAP effective tax rate for the fourth quarter was 34%, in line with our full-year figure and in the middle of our 2014 33% to 35% effective tax guidance range.

Non-GAAP net income was $129 million, or $0.75 per diluted share, compared to $119 million, or $0.69 per diluted share, in the fourth quarter of 2013. The $0.06 increase in our EPS year over year reflects a $0.09 improvement in our core operating profitability, a $0.01 benefit from lower interest expense, offset by $0.04 of a negative impact from foreign exchange.

Beginning in the first quarter of 2015, Nasdaq will report non-GAAP expenses, non-GAAP operating income, non-GAAP operating margin, non-GAAP net income, and non-GAAP EPS, excluding the amortization of acquired intangibles. The change is designed to make non-GAAP measures better reflect the core cash earnings of the power of the Company and to reflect changes in the way the Company manages itself. On page 15 in the presentation, we have included a table to show how using this methodology would have changed non-GAAP operating expenses, operating income, operating margin, net income, and EPS over the past four quarters and three years.

It is important to note that, while we will be excluding amortization of acquired intangibles from our non-GAAP metrics, there will be no change in our return on invested capital discipline to prioritize capital return and deployment opportunities and determine whether they are in excess of our cost of capital requirements. Thus, there will be no lowering of the bar in terms of the returns we expect to generate when returning or deploying capital.

If you turn to page 12, we've introduced 2015 non-GAAP operating expense guidance, which excludes amortization of acquired intangible assets, in line with our reporting in 2015. Our 2015 non-GAAP operating expense guidance, based on average FX rates in the first half of January, is $1.120

billion to $1.150 billion, which includes $30 million to $40 million in research and development costs. The midpoint of our expense guidance corresponds to a low-single-digits increase from 2014 non-GAAP operating expenses, excluding the amortization of acquired intangibles, of holding currency rates stable, and excluding the impact of the Dorsey Wright acquisition. We also expect our non-GAAP effective tax rate to be between 33% to 35% in 2015.

Moving on to the balance sheet, please turn to slide 13. Our gross-debt-to-EBITDA leverage ratio fell to 2.3 times from 2.4 times last quarter due to a decrease in the book value of foreign-denominated debt and increased trailing 12-month EBITDA. We repurchased $58 million of stock in the fourth quarter, bringing our repurchases since resuming our buyback program in the second quarter of 2014 to $178 million.

Reflecting this activity, we continue to believe share repurchases generate attractive returns for our shareholders, and we will continue to be opportunistic and aggressive when we see attractive buying opportunities. As always, we'll continue to put capital to the work where it generates the highest returns for our shareholders.

Thanks for your time, and I'll now turn it back over to Ed.

Ed Ditmire - *Macquarie Capital Securities - Analyst*

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

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Our first question comes from Rich Repetto with Sandler O'Neill.

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

Morning, Bob. Morning, Lee. How are you?

Bob Greifeld - *NASDAQ OMX Group Inc - CEO*

Good.

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

I guess we're limited one question this time. My question would be on NLX, Bob, because you did address it in the prepared remarks.

Bob Greifeld - *NASDAQ OMX Group Inc - CEO*

Yes.

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

And talking about the lower EPS loss. Could you explain a little bit deeper what efficiencies did you do? Was it the pricing changes or was it headcount? We're balancing that also off with it looks like, if our numbers are correct, there's a material market share decline so far in January, so the other part of the question would be outlook on NLX if the market share declined, if it's correct, stays in place?

Bob Greifeld - *NASDAQ OMX Group Inc - CEO*

Good question, Rich.

First is, as I said in my prepared remarks, we definitely figured out better ways to lever our existing infrastructure within Europe and in other parts of the Company, so we're able to do that quite efficiently without any really lessening of customer service. With respect to the market share, we've taken a different philosophy with incentives. I think it's a better long-term philosophy, a short-term hit, but this is about really growing the core interest and what we'll call the naturals in the marketplace.

We're actually satisfied with the progress we're making under the new way we're looking at the endeavor. That being said, I think the eventual long-term success of NLX requires a new set of committed partners. Again, as I said in my prepared remarks, we're excited about the progress we're making with those discussions, but they are, at the end of the day, fundamental to the long-term success of NLX.

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

Okay, all right, I'll play by the rules here, and thanks for the answer.

Operator

Our next question comes from Mike Carrier with Banc of America Merrill Lynch.

Mike Carrier - *BofA Merrill Lynch - Analyst*

Thanks. Maybe for Lee, I just want to look at the organic growth and some of the nuances that are going on and maybe the drivers going forward.

If I look at the second half of this year, it looks like the organic growth is coming in maybe around 2% to 3% versus first half. That was closer to that mid-single digit of 5%, 6%. When I think about going forward, you guys have named some initiatives that you are working on to drive that growth back to the mid-single digits.

When I think about pricing moves that you've made on the positive side versus new product launches and taking market share versus maybe the environment or competitive pressures, I just want to get a sense on what you think will get us to that level? What will be the drivers, if you can break that down?

Lee Shavel - *NASDAQ OMX Group Inc - CFO*

From an organic growth standpoint correct, Michael?

Mike Carrier - *BofA Merrill Lynch - Analyst*

Yes that's right.

Lee Shavel - *NASDAQ OMX Group Inc - CFO*

I think when you look at each of the segments of the business, let's go just through the four individually. In listing services, clearly the strength of the new issue market, which we're seeing. We continue to see a strong pipeline. As well as, as we've talked about, we have some pricing increases that we are implementing. I think we feel very comfortable with the organic growth drivers within that segment as we see the business right now and over the intermediate term.

When you look, then, secondly at the information services business, there again you see both product strength in terms of Nasdaq BASIC, which is a primary contributor of our organic growth, as well as selected pricing improvements that we've been able to make across the business. I would say, generally, further innovations in finding new products and development, and in particular, that's where we're very excited about the fresh look that Salil will bring to the business in helping us expand that business.

The index business is fundamentally driven organically by the ongoing shift from active to passive management and the growth in our assets under management drives that. All of those underpin our organic growth confidence in information services.

In technology solutions, with market technology, as you can see, we had particular strength in order intake in that business. I think that's indicative of a continued appetite among both large players like the Japan exchange, as well as Singapore to upgrade their technology, which is an opportunity for us.

We continue to be the leading dominant player in that space, so as that trend continues, we expect that will drive our growth. Plus growth in BWise, which had record order intake, as well as in our SMARTS business is evidence of us finding effective niches of products that are demonstrating good growth in that business.

Then in corporate solutions, while currently we continue to face both the FX headwinds and some of the challenges as we integrate and transition that business, we still have a fundamental optimism and confidence in the quality of the product platform that we are developing for those clients over the intermediate term. That will -- that appetite, not only product differentiation, but I think fundamental increase in the utilization of technology to meet the needs for corporate customers on the IR side, on the governance front, on multimedia and communication tools, will continue to expand and create an opportunity for us. So, those are all of the non-transactional businesses and the underpinning organic growth.

Then, within the market services business, we of course believe that maintaining our competitiveness in that sector, our ability to grow our market share across all of our trading businesses, but particularly with regard to the opportunity that we see at eSpeed in expanding beyond the on-the-run treasury sector into the off-the-run space, is an opportunity for us to grow that business as well as the initiatives including NLX and others, which we will continue to work towards delivering organic growth beyond an overall expectation of market growth as volumes respond to higher volatility.

Sorry, it's a long answer, but I wanted touch on what we think are the underlying drivers offer our organic growth.

Mike Carrier - *BofA Merrill Lynch - Analyst*

That's good. It's helpful, thanks a lot.

Operator

Our next question comes from Chris Harris with Wells Fargo.

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

Thanks a lot. Hello.

Bob Greifeld - *NASDAQ OMX Group Inc - CEO*

How you doing, Chris?

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

Pretty good. Wonder if you could comment a little bit on the ICE's proposal for cash equities? Related to that, knowing the customers and regulators like you do, what do you think the chance is of something like this actually going through?

Bob Greifeld - *NASDAQ OMX Group Inc - CEO*

I would start by saying that we certainly support an active discussion of the underpinnings of the market under Reg NMS, and we recognize there needs to be improvement there. I think I said on some prior releases, we're also now focused on the art of the possible in terms of what's achievable.

So, while we support ICE's efforts and other commenters in trying to change the structure, we do understand how the wheels of the machinery down at the Commission run. I think most interesting is what we're trying to do proactively. You see -- it's basically next week, Tom, right, we start the pilot? Where we put in a fee cap, which has been strongly supported by the buy side and with most members of the sell side, so that's something we could do of our own power under our own control with strong support from the customers.

We are doing it as a pilot. We'll study the data to the extent that it makes sense and improves market quality, then we'll move along with that.

The only other thing I'll add, as I've said previously, we think the concept of maker/taker is not by itself bad. The concept of rewarding somebody to provide information to the rest of the marketplace by showing their cards first is fine. We think it's not fine when that reward is the reason for the activity in and of itself. Certainly, our concept of maker being a valid approach is there, in our pilot, but you'd also see, then, a reduction in the maker fee to give somebody the essence of the reward for initiating liquidity into the marketplace.

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

Thanks a lot.

Operator

Our next question comes from Ken Worthington with JPMorgan.

Ken Worthington - *JPMorgan - Analyst*

Hi, good morning. Wanted to follow up on Rich's question on NLX. I'll phrase a little differently. It looks like volume in your IBORN is now down to 2,000 contracts a day. You've been running at 50,000 to 60,000 in November and 50,000 to 80,000 in October, so how does your approach of letting volume fall as much as it has help NASDAQ find the partner that you're looking for?

Then, you've announced the launch of energy future products. Why is that experience going to be different than what we've seen thus far in interest rates and will it be as costly?

Bob Greifeld - *NASDAQ OMX Group Inc - CEO*

Great question. Let me start with the first.

In consultation with our customers, they definitely educated us in saying that while the market share success of NLX in the beginning days was interesting and certainly served as an advertising mechanism to draw their interest and to draw them into further conversations with us, at the end of the day, the question was what kind of natural flow are you bringing into the marketplace and how are you growing open interest over time? That's been our focus and a pivot point come December.

The benefit there, it allows us to basically reduce our burn rate in addition to other things we did to lever our infrastructure. That's been positively received by the customers.

I would say the key point is that NLX has established credibility with the potential partners in that we are obviously up or operational. We are live. We have a broad distribution in the marketplace between all the different ISVs and number of direct connections into the marketplace. We have a demonstrated ability, when necessary, to attract market share to the platform. Very importantly, also, we're clearing through LCH and we're supporting the horizontal clearing model.

As I said previously, we don't yet have yet to find a single customer who wants to be in a vertical monopoly, so we're addressing that need for them. We're basically very pleased with the reduction in the burn rate. We're pleased, I think, with the new strategy and we're also pleased with the discussions that are ongoing. I'll also say with NLX, it's important to recognize that based on the new approach we do have in addition to partner discussions a number of new FCMs who are in various stages of connecting to us, so far so good there.

With respect to a product which we have not announced, there's a newspaper report on it, but we have not fully announced anything on it. As I said in my prepared remarks, when customers come to us we do listen. We do understand, as I said before, the customers like to see some way out of a monopoly-type situation.

We understand that here in the US, as we build our futures franchise and our integration into the clearing infrastructure, most notably OCC, that we have abilities to do things at a relatively low cost. I'd also say that anything we might contemplate with the other asset classes will definitely be well informed by our experiences with NLX, and I think we would have a very focused effort if we decide to go in that direction.

Ken Worthington - *JPMorgan - Analyst*

Great, thank you very much.

Bob Greifeld - *NASDAQ OMX Group Inc - CEO*

You're welcome.

Operator

Our next question comes from Brian Bedell with Deutsche Bank.

Brian Bedell - *Deutsche Bank - Analyst*

Good morning folks.

Bob Greifeld - *NASDAQ OMX Group Inc - CEO*

How you doing Brian?

Brian Bedell - *Deutsche Bank - Analyst*

Good, how are you?

Just on the -- let me ask a capital management question. With some of the weaker revenue trends from the two bigger acquisitions of eSpeed and Thomson Reuters versus initial expectations, obviously the cost control and synergies are going to continue to be good there. But does that change your view on capital allocation toward more stock buyback on a longer term basis? Maybe if you can just talk about your acquisition strategy?

Bob Greifeld - *NASDAQ OMX Group Inc - CEO*

The first thing I would say is the eSpeed acquisition and Thomson Reuters acquisition, while with any acquisition you always -- it doesn't go exactly the way you want, we feel very good about the fact that we are in a better competitive position today than we were a year ago. I think you could argue that we're in a significantly better competitive position in both of those businesses than we were one year ago. That always forebodes well for financial performance in the future, so we're happy about that. Clearly, we're seeing some uptick in eSpeed and also in corporate solutions, so trend lines are in fact positive.

Responding to your question directly, we have to look at each situation individually and make our assessments. I think your direct question would be, if you look at an acquisition and you're assuming large revenue growth, we clearly recognize that that increases the risk profile and it's a dramatic risk profile increase as compared to assuming expense synergies. We do use that to guide some of our thinking.

It's very hard for us to consider any acquisition where we have a hockey stick revenue growth. In the last year, we have not been successful in a number of different bidding situations because of our discipline with respect to one, the return we need, but two, in terms of just our clinical view of what the revenue growth opportunities are.

Brian Bedell - *Deutsche Bank - Analyst*

It sounds like your greater discipline on the pricing side might skew you towards more buyback in the future, again depending on how the properties are come up?

Bob Greifeld - *NASDAQ OMX Group Inc - CEO*

I wouldn't want to say anything definitive. I would just say, we look at each situation and each particular point in time as unique opportunity.

Brian Bedell - *Deutsche Bank - Analyst*

Okay, great, thanks so much.

Operator

Our next question comes from Ashley Serrao with Credit Suisse.

Ashley Serrao - *Credit Suisse - Analyst*

Good morning.

Bob Greifeld - *NASDAQ OMX Group Inc - CEO*

How we doing?

Ashley Serrao - *Credit Suisse - Analyst*

A question on corporate solutions. Can you slice your margin expansion plan for 2015 further? Specifically, if you were to assume flat revenues and layer in incremental expense synergies that you identify, where would margins be? Basically, trying to just get a sense of how revenue dependent that new margin target is?

Lee Shavel - *NASDAQ OMX Group Inc - CFO*

Ashley, I think that the range that we provided for the forth quarter, I think reflects our current expectations for both the continued cost synergies as well as for revenue expectations for the business. Certainly, if we're more successful on the revenue side, then I think we will be to the higher end of that range and at the lower side if we don't have that success. I would continue to mention that 2015 will, as we've discussed before, continue to be an integration year.

As we are migrating from a larger number of platforms to a smaller number of platforms, that unlocks the opportunities for us to drive further cost savings, but it also subjects us to transitions with our clients and customers that we try to manage as carefully and effectively as possible. But, that takes time from the team focusing on those issues as opposed to sales efforts, but we think that as we can successfully complete that process, we'll be able to move more and more focus to the sales growth side and that will translate into stronger revenue growth.

Ashley Serrao - *Credit Suisse - Analyst*

Great, thanks for taking my question.

Operator

Our next question comes from Alex Blostein with Goldman Sachs.

Alex Blostein - *Goldman Sachs - Analyst*

Great, thank you. Good morning, guys.

Bob Greifeld - *NASDAQ OMX Group Inc - CEO*

How you doing, Alex?

Lee Shavel - *NASDAQ OMX Group Inc - CFO*

Morning.

Alex Blostein - *Goldman Sachs - Analyst*

Good. Question on eSpeed, just when you take a step back and you think about where the market share was in the fourth quarter, and I think you guys have alluded to a potential pick up towards the end of the year as you move into new [debtor] centers.

What do you think went the other way for you guys so that you actually last a little bit of market share? Then just a follow up on the intangible charge this quarter, the $49 million. Is that essentially all eSpeed-related or is that related to number of intangibles?

Bob Greifeld - *NASDAQ OMX Group Inc - CEO*

Let me start with the first part of your question. Lee can address the second. When you look at our customer mix, we don't recognize that we are more indexed to volatility, so as volatility comes into the marketplace the predominance of our customers enjoy that and trade more actively. In periods of low volatility, our markets share will skew lower than I think its baseline rate. During heightened volatility, I think you'll see the opposite.

The important point is we're in good situations with all our customer, which we could not say a year ago. Certainly, we see increased volatility in the fourth quarter going into the first quarter, which is serving us well. We're pleased with the positioning.

As we've said before, we're somewhat uniquely able to extend the product set in that we don't have a voice brokerage component that would argue against that. We have the soft role of short shorts this week, and we're looking forward to making that in full production in the next couple of weeks, so we're excited.

Lee Shavel - *NASDAQ OMX Group Inc - CFO*

Alex, on the asset impairment, the $49 million, approximately 80% of that or $38 million was attributable to an impairment that we took on the eSpeed customer list. I think it's important to note that when we make the acquisition you apply the excess of the purchase price above the fair value to a variety of intangible assets. The smaller one of those was the customer relationships. It's more specifically related to the expected revenues from the existing customer base at that time.

As a result of our deliberate pricing actions to move towards a more hybrid pricing model, including more variable fees, in this lower volume environment, that reduced the amount of revenue associated with that existing customer list, so we took a partial impairment of that asset. We did not impair the longer term intangible of trade name for that. We continue to believe that the value of that asset is in excess of our carrying value. Importantly, that's not just our judgment. It's also the judgment of our external valuation experts that provide those valuations to us.

The other amount of the $49 million beyond the eSpeed customer list impairment are a variety of different technology assets that we have decided to write-off. They are no longer contributing to the business. It's an association of approximately 13 items that contribute to that additional $11 million in the 449 million.

Alex Blostein - *Goldman Sachs - Analyst*

Understood. Thanks so much.

Operator

Our next question comes from Neve Alexander with KBW.

Neve Alexander - *Keefe, Bruyette & Woods, Inc. - Analyst*

Hi, thanks for taking my questions. Just to loop back on the solid expense guidance, I want to correspond maybe some of that to -- because the core expense guidance excluding the intangibles was better than we'd expected. You're modeling flat year on year. I'm just trying to parse out maybe some of that is exchange rate related?

Then, relating back to your slide 4 on your revenue guidance, like the information and the technology solutions targeting mid-single digits, if we assume -- I'm sure the exchange rates will change, but if we assume there's no change from now -- so already we're at a stronger dollar versus where you were a year ago, should we still be modeling mid-single digits or should we be adjusting that, for now, adjusting it lower for a stronger dollar?

Lee Shavel - *NASDAQ OMX Group Inc - CFO*

Our guidance is that is longer term guidance and so it's first of all, that's organic growth excluding the impact of foreign exchange. When we provide those organic numbers in the chart on page 4 of the presentation, those are at constant currency, Neve, so that's -- the changes or fluctuations in foreign exchange rate won't influence the numbers that we're reporting there nor the overall guidance that we've provided.

Neve Alexander - *Keefe, Bruyette & Woods, Inc. - Analyst*

So for our modeling purposes we should adjust now for where ever the exchange rates are now, and maybe all else equal, I guess I'd bring that down a little bit to adjust just for the lower non-dollar stuff, is that fair?

Lee Shavel - *NASDAQ OMX Group Inc - CFO*

I would say, I think our expectation in looking at where the analyst consensus expenses are is that they probably have not updated for current foreign exchange rates. That's why it may look flat to lower than where we are. When we set the 2015 guidance, what we are looking at is average foreign exchange rates in January to determine that number, so I think that adjustment needs to be made. Then, we've also given you guidance in terms of the additional expenses from the Dorsey Wright acquisition, which would be approximately $10 million on an annual basis.

Neve Alexander - *Keefe, Bruyette & Woods, Inc. - Analyst*

That's great and just, then, we just need here to adjust the revenue as well for the January as well. Okay, thank you.

Operator

Our next question comes from Neil Stratton with Citigroup.

Neil Stratton - *Citigroup - Analyst*

Good morning. I just wanted to ask a question about the listings business. There was a price increase, which would have affected 2015, and also a change to a new fee schedule, which is optional but goes mandatory in 2018. Just want to get any color around what the revenue pick up could be year over year from that? Thanks.

Bob Greifeld - *NASDAQ OMX Group Inc - CEO*

It's certainly coming in higher than we anticipated. Adena, what are we looking at, $5 million?

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

Right, so I think that if we were to look at 2015 versus 2014, just on the fee increase, it's approximately $10 million.

Neil Stratton - *Citigroup - Analyst*

Okay, thanks. Just along with it, how do you see the all-inclusive comparing to the prior fee schedule? Is that a net benefit to NASDAQ? How do you see that shaping up?

Bob Greifeld - *NASDAQ OMX Group Inc - CEO*

I think it's a win-win in that it's obviously a net benefit to us but our customers also like it because they have a better ability to budget for the year. They did not like getting, in middle of the year, a listing of additional shares fees, so this is a way for them to avoid that. It's been very, very well received. The uptick was -- we give them the option. The uptick was higher than we anticipated, so we're happy.

Neil Stratton - *Citigroup - Analyst*

Okay, thank you.

Operator

Our next question comes from Chris Allen with Evercore.

Chris Allen - *Evercore ISI - Analyst*

Morning. Most of my questions have been answered. I guess just one quick on one US equity options. We've seen some nice market share gains from BATS in the Miami exchange in recent months. It seems to be coming out of Philex and AMEX. I was just wondering if you could provide any color in terms of competitive dynamics within that industry right now? What you guys are seeing?

Bob Greifeld - *NASDAQ OMX Group Inc - CEO*

Right now, our market share lead over our nearest competitor is higher than it ever has been, historically. I think we're 6 points higher than number two when you put our different assets together. So, between non-Philex and BX, we're at an all-time high.

We have certainly seen market share gains from us versus some of the competitors, I don't need to go into names. We're very pleased with our market share positioning.

Chris Allen - *Evercore ISI - Analyst*

Thanks guys.

Operator

That concludes the Q&A session. I'll now turn the call back over to Bob Greifeld, CEO, for closing remarks.

Bob Greifeld - *NASDAQ OMX Group Inc - CEO*

Great. As I said in my prepared remarks, it was truly a outstanding quarter and outstanding year. We're happy to be delivering to our investors record results. Our businesses are better positioned than they were before. Our management team is in place and positioned to grow this institution over time. I think we are striking the right balance between focus on core operational efficiency, investment in R&D, and strategic acquisitions. We like the state of the franchise at this point in time. We appreciate your support and look forward to getting back to you again in the quarters to come. Thank you, everybody.

Operator

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