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NDAQ - Q3 2014 NASDAQ OMX Group Inc Earnings Call

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OVERVIEW:

NDAQ reported 3Q14 total net revenues of \$497m and non-GAAP net income of \$125m or \$0.72 per diluted share.



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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the NASDAQ OMX third-quarter 2014 results conference call.

(Operator Instructions)

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

Ed Ditmire - Macquarie Capital Securities - Analyst

Good morning, everyone, and thanks for joining us today to discuss NASDAQ's third-quarter 2014 earnings results. On the line are Bob Greifeld, our CEO; Lee Shavel, CFO; Ed Knight, General Counsel; Co-Presidents Adena Friedman and Hans-Ole Jochumsen; 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, and we intend to use the website as a means of disclosing material, non-public information and complying with disclosure operations 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 - *The NASDAQ OMX Group, Inc. - CEO*

Thank you, Ed. Good morning, everyone, and thank you for joining us today to discuss NASDAQ's third-quarter 2014 results. We are pleased to deliver to our shareholders record-tying \$0.72 non-GAAP diluted earnings per share and continued strong non-GAAP EPS growth of 9% year on year.

Year to date, our non-GAAP EPS growth is a very strong 11%. Total net revenue for the quarter was \$497 million, and our operating margins rose to a very healthy 43%, the highest since the first quarter of 2013. We delivered these results against the backdrop of what I would characterize as a more traditional summer, with more seasonality than we have experienced over the past few years, which certainly impacted the top line.

During the quarter, we continued to be vigilant on our expense structure. We achieved an impressive 6% organic year-on-year reduction in non-GAAP cost, and we lowered our 2014 expense forecast for the second time this year, which Lee will discuss in more detail in a few minutes. That being said, the management team here in this room is by no means content with our performance for the quarter.

Looking forward, there are a number of developments that instill confidence in our ability to capitalize on the substantial growth opportunities in front of us. First, we remain on track to again deliver an exceptional full-year performance in 2014. Year-to-date organic growth is up 4% overall, and 5% in our non-transaction-based businesses alone, and our non-GAAP EPS is up 11%.

The fourth quarter has started with excellent momentum. US equities and option volumes are up about 30% month to date in October, compared to October 2013 levels, and on-the-run US Treasury volumes are up over twice that rate. Just recently, eSpeed saw an all-time record volume of \$210 billion in principal traded on October 15.

Our competitive position across the businesses is extremely strong. In the third quarter of 2014, equity market share across our US equity markets rose 1% year on year, while our European equity market share rose an impressive 5% year on year. Our US options offerings continues to be the market-share leader, and we are on our way to being the leading venue for share in equity exchange-traded product options for the fifth straight year.

Our share of US IPOs was 62% in the quarter and 61% year to date, in a very busy IPO environment. Globally, over 281 companies listed on our markets for the first three quarters of 2014, including 167 IPOs, including significant names such as JD.com, TrueCar, and GoPro. Lastly, we are seeing encouraging signs of operational progress in our acquisitions of eSpeed and the Thomson Reuters corporate solutions business, and in new growth initiatives such as Analex and our NASDAQ Private Market. This list is by no means all inclusive, but provides a solid foundation for our confidence in our ability to continue to execute and deliver for our shareholders in the quarters to come.

Now, I would like to go into a little more detail about some of the opportunities we see taking shape across this great organization. In our market services business, we continue to focus on making incremental progress in capturing market share and, in particular, developing new product enhancements. Market volumes are off to a strong start, as I mentioned, in the fourth quarter. I think it's, though, important to highlight the work we have been doing across our platforms to enhance features and functionalities for our customers, which will further enable us to take greater advantage of increasing volumes.

With respect to eSpeed, we continue to make steady progress on the strategy to improve and enhance our product offerings. At the end of the second quarter, we completed our technology upgrade to the platform and data center migration. This important step allowed us to move forward with expanding our product menu.

Our first product expansion, an electronic T-bill offering, has been gaining traction, and trading volumes are averaging over \$4 billion per day in notional value, with a single-day high over \$10 billion. We have hosted transactions from 23 clients to date, with a strong representation of the dealer community, and have seen a number of individual transactions of over \$1 billion in size. This has certainly exceeded our initial expectations.

We have additional products in our pipeline that we've been working closely with our customers to develop. We feel these offerings will continue to add value to the platform, and position us for additional growth opportunities in the fixed income space.

Now, moving on to our technology solutions segment, we see equally promising progress and developments here, as well. Let me highlight a few. The acquisition of Thomson Reuters' IR, PR, and multimedia businesses represented a great leap forward in our strategic direction. We have access to great people, technology, and global distribution channels.

We are in the process of leveraging these assets to take this business, and this space, really, to a whole new level of capability. We continue to integrate our acquired and legacy corporate solutions businesses, while simultaneously developing both the next generation of products and developing and deploying a new common order management and billing system. The integrated enhanced product set, powered by our next gen IR desktop, will unlock significant cost synergies as we eliminate overlapping and redundant product families, but also, importantly, accelerate demand and revenue growth, as it is a more compelling offering that better connects and leverages the entire breadth of the IR product suite.

We have invested a lot of time and energy in this next gen platform, and getting it right, and we are excited about what we'll offer to our customers. In fact, we see this as a core driver in accelerating our cross-selling opportunities. We've been on the road previewing the new next gen platform to our customers, and, so far, the response has been extremely positive. Customer interest is building and delivering a positive impact on our sales and retention efforts, well ahead of its planned 2015 introduction.

We have also seen marked improvements in our billing and collection process as this new system is deployed, and we are in the process of moving legacy NASDAQ corporate solution products onto the same system. All these initiatives are moving this business in the right direction. The team is focused on enhancing the quality of our offerings and our commitment to our customers. These actions will position this business for growth in the months to come.

On the other side of technology solutions, our market technology business continues to be one of the core differentiators for this firm. Nobody on the planet has the depth of expertise or product offering that NASDAQ does in this space. During the quarter, our leading position in technology expertise continued to resonate in the marketplace.

Our US swap execution facility, trueEX -- not ours, but our customer, trueEX -- agreed to use our SMARTS Integrity product, positioning NASDAQ as a compelling offering in the sector. In the Nordics, Folksam Insurance agreed to implement our GRC suite, BWISE. And, in the Middle East, Bahrain Bourse launched our Extreme trading platform. The global regulatory environment is slowly moving in our favor, encouraging our customers to take advantage of the full spectrum of our offerings.

Another area that has been incredibly strong for us this year is listings. In fact, NASDAQ continued to lead all US exchanges for IPOs in the third quarter. We welcomed 76 new listings in the quarter, with 41 of those being IPOs. With a 61% win rate through the first three quarters of 2014, and over 167 IPOs in the US and Europe, we continue to capitalize on the robustness of the new issue market and enhance the value we offer to the companies that list here.

During the quarter, we welcomed a variety of companies from energy to consumer to retail. Our market had many new entrants -- highlighting a few: TerraForm Power; VWR Corporation; El Pollo Loco Holdings; and Office Depot, a \$2.7 billion market cap company that switched to NASDAQ from our competitor. The number of new listings through the end of the quarter is up 46% year on year. And, in terms of the pipeline, applications are up over 65%, compared to the same period a year ago.

While we take pride in competing at the highest level for new listings and potential switches, we also have been thinking strategically about how to capitalize on growth opportunities in this space, while serving the needs of our clients. To this end, we have focused a considerable amount of time on the needs of private companies, with our NPM NASDAQ Private Market offering. Several new private companies have joined and are completing shareholder liquidity programs through NASDAQ Private Market, including Tango and Energi.

NPM also launched its ExactEquity product during the quarter, an integrated stock plan administration and capitalization table-tracking solution, which complements the services currently offered by NASDAQ Private Market. As private companies mature, their cap tables become more complex



and time consuming to manage. ExactEquity allows NPM to provide a robust solution that also efficiently integrates with capital markets activities on the NPM platform. There are approximately 40 companies using ExactEquity's product today, and we continue to be encouraged by the progress we are making in serving these companies and this important segment to the market.

Moving on to our information services segment, we continue to be encouraged by our index, licensing, and service business, which has continued to diversify its product offerings, with 11 new ETP launches during the quarter. At the end of the third quarter, NASDAQ licensed 156 exchange-traded products globally, which together had over \$96 billion in AUM. We certainly see this business as one of the core pockets of opportunity for us in the quarters to come.

Now, in addition to the steps we are taking to strengthen our core business and take advantage of growth opportunities, we have also been focused on a leadership structure that will continue to position us to drive our business forward. Earlier in the year, we announced the creation of the Co-President roles to lead the transaction and non-transaction businesses, and the appointments of Hans-Ole and Adena to lead them. We have always had the fundamental belief that there is a compounding value of consistency in how we run the organization. But after 11 years, and the evolution of our business from a single US exchange to a global diversified business, the time was right for the evolution of our management structure.

More recently, the leadership appointments we announced in our listing services and technology solutions segments are clearly designed to make sure we are aligned with the strategic opportunities in front of us, as we further broaden and deepen our client relationships. We are fortunate to have Nelson and Lars, two long-time NASDAQ executives, ready and willing to step into their new leadership roles in listings and market technology. Bruce Aust, now our Vice Chairman, will have a special focus in San Francisco, and in particular, in developing the NASDAQ entrepreneurial center to be the leading venue for the development of thought and action leadership on entrepreneurial studies.

I also want to take a moment to congratulate John Jacobs, EVP of Information Services, who will be retiring from this role at the end of the year, after 30 years of outstanding leadership and contribution to this organization. We would not be the Company we are today without John's leadership, drive, and intelligence through the years. He will continue on as a strategic advisor for us in 2015.

In closing, during a seasonally slow period, we focused on delivering for our shareholders, and I'm pleased that our efficiency paved the way for us to deliver a strong bottom-line result. There are certainly plenty of encouraging signs that demonstrate the resiliency of our model and the continued growth and expansion of this franchise in the periods to come. Whether it's October's pick-up in trading volume, or more importantly, the operational progress on our value-creation opportunities, I have every confidence that this management team and our colleagues will continue to deliver and execute for our customers and our shareholders.

With that, I'd like to turn the call over to Lee, who will go on in more detail on the numbers.

Lee Shavel - The 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.NASDAQOMX.com.

Overall, our financial performance this quarter can be described as stable operating revenues, pressured by some environmental challenges such as an adverse foreign exchange environment, and some temporary business issues, such as the quarterly drop in audit revenues and the step-down of the ELX contract, offset by growth in our listings business, index, and market technology, as well as a significant reduction in our overall expense base year over year.

I will start by reviewing our third-quarter revenue performance relative to the prior-year quarter, as shown on page 3 of the presentation. Net revenues declined 2%, or \$9 million, to \$497 million. Contributing to this decrease was a 1%, or \$5 million, decrease in subscription and recurring revenue, due largely to lower data audit collections of approximately \$8 million; pricing actions designed to offset lost subsidies for certain corporate solutions customers; and changes in foreign exchange, offset by \$7 million of revenue growth in listings, indexes, and market technology.

Subscription and recurring revenue represented 74% of total revenues. Transaction-driven revenues fell 3%, or \$4 million, due mainly to changes in foreign exchange, which represented \$2 million of the \$4 million decline, as well as \$2 million in scheduled reductions in eSpeed technology license revenue, as previously discussed. On an organic basis, assuming constant currency and excluding acquisitions, total Company net revenues declined 1%.

And, if we move to page 4 in the presentation, we show how that organic growth breaks down between the non-transactional information services, technology solutions, and listing services segments, and the volume-sensitive market services segment. On the bottom of this page, we reiterate our views on the medium-term organic growth outlook for the non-transactional segments. I'll reiterate what I 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. And I would also note that, in connection with our annual periods, as reflected in our year-to-date period for 2014, our performance remains consistent with this guidance.

I'm now going to go over some highlights within each of our reporting segments. All comparisons will be to the prior period, unless otherwise noted. In information services, on page 5, we saw a 3%, or \$3 million, decline, with operating margin down slightly, to 72% from 74%. Market data had a 7%, or \$7 million, decline in revenues, due largely to an \$8-million decline in audit collections compared to the third-quarter 2013 period.

This, along with some impact from foreign exchange, more than offset other increases, such as revenue growth from NASDAQ Basic. In index licensing services grew revenues 22%, due principally to the growth in assets under management and exchange-traded products licensed to NASDAQ indices, which rose 22%, to \$96 billion, at the end of the quarter.

Technology solutions, as shown on page 6, saw a 2%, or \$2 million, decline, and the operating margin rose 7 points to 13%. Corporate solutions revenue fell 4%, or \$3 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. Elsewhere in corporate solutions, we saw offsetting positives and negatives.

Organic growth was material in press releases and the Directors Desk governance products, where we saw a 21% increase in published press releases and 16% growth in Directors Desk users. However, Investor Relations products also faced intense competition, as we continued our migration to new product and billing platforms. We remain confident that, as this process is completed and more clients are exposed to our next gen platform, as Bob described, we will resume revenue growth. To this end, we have already seen important head-to-head competitive wins and improved retention.

As I said last quarter, current-period revenue run rates reflect the fact that the changes we're making, while essential to supporting growth in the long term, have a temporary negative impact -- something we would expect to fade as we move into and through 2015, when more and more of the enhancements and transitions will be completed, and synergies realized.

Market technology revenues grew 2%, or \$1 million, a bit below the recent trend, as most of the growth at BWISE and SMARTS was offset by foreign exchange headwinds. The backlog, at \$621 million, remains 6% above the same period last year, and order intake was \$28 million for the period. Consistent with what we've said in the past, we continue to expect year-over-year improvement in technology solutions segment margins in 2014, expect ongoing margin improvement in 2015, and continue to work towards a 20% margin target by the end of 2015.

Market services, on page 7, saw a 3%, or \$6 million, decline in revenues, due mainly to foreign exchange and the impact of the scheduled reduction in revenues from a technology license customer at eSpeed. Operating margin rose to 46% from 43% in the prior-year period.

Net derivatives trading and clearing fell 7%. European revenues were down slightly due to foreign exchange, while net US derivatives were down due mainly to lower average capture. While our capture in the third quarter of 2014 was steady from the recent periods, the prior-year period had experienced a recent high in pricing. These decreases were partially offset by higher industry volumes.

Net cash equities trading revenues rose 13%, as we saw market share higher in both the US and Europe, and a material rise in US capture, overcoming some modest foreign exchange headwinds affecting the European revenues. Net fixed income trading revenues fell \$5 million from the prior year, with about \$2 million in decline due to the scheduled reduction of revenues associated with the technology license customer, and the remainder



driven mostly by lower average capture. In access and broker services, revenues fell \$2 million, or 3%, to \$63 million, in part due to foreign exchange impact.

Listing services, on page 8, saw a 4%, or \$2 million, increase in revenues, due to an increased issuer base and more new issue activity on the US side, while foreign exchange impact meaningfully offset a higher market capitalization of issuers on the European side. Operating margin of 42% was up 3 percentage points from the prior year. And I'd note US IPO wins in the quarter increased to 41 from 38 in the prior-year period. Five companies switched listings to NASDAQ in the quarter, while two departed.

The US issuer base has 6% more companies at the end of the quarter, compared to the prior-year period. And in the Nordic market, new issue activity has been strong as well. And, at the end of the third quarter, the number and capitalization of listed companies rose 3% and 11%, respectively, versus the prior-year period.

Turning to pages 10 and 11 to review the income statement and expenses, non-GAAP operating expenses decreased by \$20 million, or 7%, from the prior year, due largely to declines in compensation and contract services expense. Partially, this reflects changes relating to our tracking of annual performance goals, as our outlook for 2014 activity levels moderated somewhat during the period. But it also reflects the impact of changes we made in spending plans during the second quarter, as we've described. Organic expenses fell 6% this quarter, assuming constant currency, versus the prior-year period.

If you turn to page 12, in light of the somewhat lower-than-expected third-quarter expense result, we have lowered our full-year expense guidance. Our updated 2014 expense guidance decreased to \$1.205 billion to \$1.225 billion from the \$1.220 billion to \$1.250 billion previously. While year-over-year comparisons are somewhat challenging -- given the two material second-quarter 2013 acquisitions -- if we take the second-half 2013 expense run rate and annualize it as a best-available post-acquisition baseline, our updated 2014 expense guidance reflects a roughly 1% to 3% decline, versus this second-half 2013 annualized baseline.

Non-GAAP operating income in the third quarter of 2014 was \$213 million, up 5% from the prior-year period. Non-GAAP operating margin came in at 43%, up 3 percentage points from the prior-year period. Net interest expense was \$28 million in the third quarter, a decrease of \$2 million versus prior year, due to the deleveraging we did from our recent peak debt levels at the second quarter 2013 closings of eSpeed and the Thomson Reuters IR, PR, and multimedia businesses.

The non-GAAP effective tax rate for the third quarter was 32.4%, and we continue to expect the full-year non-GAAP effective tax rate to come in within our 33% to 35% effective tax guidance range. Non-GAAP net income was \$125 million, or \$0.72 per diluted share, compared to \$113 million, or \$0.66 per diluted share, in the third quarter of 2013, matching our quarterly record. The \$0.06 increase in our EPS reflected a \$0.05 improvement in our core operating profitability, and \$0.01 was added from non-operating impacts, primarily from the lower tax rate, but offset by higher fully diluted share count, as well as an increase due to lower interest expense.

Moving on to the balance sheet, if you would please turn to slide 13. Our gross debt-to-EBITDA leverage fell to 2.4 times from 2.5 times last quarter, due mainly to a decrease in the book value of foreign denominated debt, as well as an increase in our EBITDA, and does not reflect any incremental paydown of debt in the quarter. We repurchased \$27 million of stock in the third quarter and \$35 million more thus far in October, bringing our repurchases since resuming our buyback program in the second quarter of this year to \$156 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 continue to put capital to work where it generates the highest returns for our shareholders.

Thank you very much for your time, and I'll now turn it back over to Ed.

Ed Ditmire - *Macquarie Capital Securities - Analyst*

Thank you. Operator, can you please open the line to Q&A?



QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

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

Rich Repetto - Sandler O'Neill & Partners - Analyst

Good morning, and congrats on the strong -- on the beat here in the quarter. I guess my first question is on the expenses, Lee. So if you looked at your guidance, and we took the first half and then subtracted -- the previous guidance, and you would have expected somewhere -- even if you're at the low end, close to \$300 million. If you use the mid-point, \$306 million. You were significantly below that.

I know FX must have played some role. So you significantly beat -- I was just trying to see whether that was something that was occurring during the quarter, towards the end of the quarter? And then if you look at the guidance going forward, now that you have three quarters, it's same thing. You're implying at the low end, close to \$300 million in 4Q, and at the midpoint, \$308 million, which seemed very high from the \$284 million we're at this quarter.

Lee Shavel - The NASDAQ OMX Group, Inc. - CFO

So I guess, Richard, look, just looking for guidance in terms of the drivers this quarter?

Rich Repetto - Sandler O'Neill & Partners - Analyst

Well, I guess why would it go from -- why was it down so much, \$284 million in 3Q, and then why would it go back up to \$308 million?

Lee Shavel - The NASDAQ OMX Group, Inc. - CFO

Sure. The simple answer, Rich, is that in the third quarter, the biggest component of our expenses is compensation, and we are constantly evaluating where we are relative to our overall goals within the business. And in the third quarter, as you saw, our revenues were down on an absolute basis, and that influences our performance goals, and we effectively had to reduce our overall expectations for our compensation. That had the biggest impact on the overall expense level.

That's obviously something going into the beginning of the quarter, when we set our expense guidance. We don't have perfect insight into. And so over that quarter, that's the primary influence.

There was also an impact of foreign exchange which also reduced the dollar value of our foreign expenses, due to a decline in the dollar sac rate, and then we also had what I would describe as some sequential year changes, particularly related to some retirement and pension liabilities, that were approximately \$4 million associated with that. So, that's what contributed to, I think, a particularly strong reduction in this year-over-year period. We obviously can't anticipate fully in the fourth quarter what the performance would be. Obviously the volumes are stronger, so we may see higher expenses as a result of a more volatile operating environment.



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

I'd also just add one thing. That fourth quarter you traditionally see our marketing expenses are high. So we have some seasonality to the expenses, as we look at the fourth quarter.

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

Okay. And then -- okay. And then my one follow-up, Bob and Lee, is you made some significant progress in the operating margin of Technology Solutions. And I'm just trying to see -- it looks like expenses went down. Again, I'm sure there's an FX impact by more than 10% quarter to quarter, the implied expenses, if you look at the margin.

So I'm just trying to see, of the \$35 million in synergy that you guided to, how much is in there already? If you looked at the implied, it would be \$14 million down, just quarter to quarter. Even if you took these expenses against last quarter's revenue, you get to an 18% margin. So anyway, the short question is, how far are we in that \$35 million, and is this sort of a -- the \$113 million implied expense is a good run rate?

Lee Shavel - *The NASDAQ OMX Group, Inc. - CFO*

So Rich, a couple things. One, as it relates to the operating margin for the Technology Solutions sector, I would caution you, it's obviously a good increase from where we were a year ago. But it does reflect some of the compensation reductions that I just described in the earlier answer and we also had a reversal of some bad debt charges that we had taken earlier in the year, that had proven to be not necessary. And so that 13% level is -- I would not describe as a normalized level. I think that we would probably view that more in the high single digits level, still representing an improvement on a year-over-year basis.

And in terms of the \$35 million in synergies, as we've described, we're still engaged in migrating the platforms. That, we're still in the investment phase, and I think we've realized some portion of those savings. But I would say that we still have a significant portion to achieve, once we fully migrated onto the other platforms. But we remain very confident that we'll be able to achieve that on the time line we described.

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

Rich, I would say that the business is focused right now on effectiveness, and we are obviously taking some efficiency drives. But we're doing a lot of investments in certainly the next gen product, which I referred to in my comments. The next gen is not just for IR but it's really a across the whole product suite that we have.

We obviously have to make investments in the infrastructure support. We're pleased with the efficiency we achieved so far, but that has not been our primary goal. Right now, our primary goal is to make sure this organization is effective and competitive and really can take great opportunities with the changing product sets that we'll be delivering.

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

Okay. Thank you. Thanks for the color, and congrats on the expense efficiencies you had this quarter.

Operator

Our next question comes from Kenneth Hill with Barclays. Your line is open.



Kenneth Hill - *Barclays Capital - Analyst*

Wanted to start with some of the pricing changes you had in Corporate Solutions to compensate for the loss of the subsidies. Is that fully in the run rate at this point? We've seen those revenues tick lower within the Corporate Solutions. Just want to see what the outlook is there.

Lee Shavel - *The NASDAQ OMX Group, Inc. - CFO*

Yes, Ken. They are fully in the run rate, and amount to approximately \$3 million a quarter. That's the revenue impact.

Kenneth Hill - *Barclays Capital - Analyst*

Okay. Next one here on the listings then. You had some really strong IPO trends in the quarter and you mentioned NASDAQ Private Markets had some nice developments here, as well. Your overall listings revenue within the US is flat. I know it was down quarter-over-quarter, just given some of the FX impacts. How should we think about that here over fourth quarter and even into 2015, given the IPO environment right now?

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

The listings business as I think you and most of the people on the call know, but I'll repeat anyway; we recognize the revenue, the initial listing fee, over six years. It has a muted impact up and down.

Lee Shavel - *The NASDAQ OMX Group, Inc. - CFO*

I just want to point out, we actually had the \$2 million of growth came in the US listing fees year over year. The European listing fees were flat over that period. So I think counter to your perception, we actually had 5% growth in US listing fees.

Kenneth Hill - *Barclays Capital - Analyst*

Sorry. Was just looking quarter-over-quarter for that. Understand the comment.

Lee Shavel - *The NASDAQ OMX Group, Inc. - CFO*

Quarter-over-quarter, it was flat and then it was down sequentially \$1 million in the European listing fees.

Kenneth Hill - *Barclays Capital - Analyst*

Okay, so outlook just taking a little more time as you guys mentioned, with the amortization of those fees over time.

Lee Shavel - *The NASDAQ OMX Group, Inc. - CFO*

That's right. Exactly.

Kenneth Hill - *Barclays Capital - Analyst*

Thank you.

Operator

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

Brian Bedell - *Deutsche Bank - Analyst*

Bob, if you could just talk a little bit more about the NLX strategy, where we stand on that, the current drag to current results and how you're thinking about that coming into year-end and in 2015. Maybe just comment on market share and whether there's any thought about reviewing, continuing with that program into 2015?

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

Well, I would say this. We're certainly pleased with the progress of NLX. You see market share in the teens in Euribor, and just in the last week or two, you saw the Schatz market share go up into mid to high single digits. So we're pleased with that point.

And I'd also say that NLX has now achieved a certain level of credibility, where you see new players, and some significant new players wanting to become involved with the effort. So, good execution in the quarter. We continue to work away. We understand progress in this kind of new initiative is not linear, but so far so good.

Brian Bedell - *Deutsche Bank - Analyst*

And how about the earnings drag for the quarter on the market payments, payments to market makers?

Lee Shavel - *The NASDAQ OMX Group, Inc. - CFO*

It was stable to the prior period, and for the prior-year period, Brian. So, no change in that level.

Brian Bedell - *Deutsche Bank - Analyst*

Okay. Great. And then just my follow-up would be on eSpeed. Can you talk a little bit more about the growth -- the revenue growth outlook there coming to 2015, both on your view on market-driven volumes and then also the product development? The new products that you've launched and have in the pipeline, in terms of the cross-saleability into your user base over the next, say, 12 months?

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

I'll add a third dimension to your question. So, one, with respect to market share, we're not pleased with our progress there. We continue to work very hard at it. And I think our engagements with our customers are reaching new and productive levels, so I think we'll see progress in that.

With respect to volumes, we got teased by a good week, and one great day. This week, it's back to where it was. So we see the power of the franchise and rates move, we certainly are expecting good things. But we really can't control that. We watch it every day but we can't control it.

On the new product side, we're certainly, I think, executing very well. As I mentioned during our prepared remarks, the bills product has gone very well. Our next product introduction is coming right around Thanksgiving, with full roll-out come the first of the year. And we're excited about that.

So we have a fairly robust pipeline of products. We want to stage them and make sure each and every one of the roll-outs is as successfully executed as the bills was. So market share, we've got some work to do. Volume we're teased, but nothing that seems to be staying with us, and third, the product introduction has been well done so far.



Brian Bedell - *Deutsche Bank - Analyst*

That's very helpful. Thanks very much for taking my question.

Operator

Our next question comes from Alex Blostein with Goldman Sachs. Your line is open.

Alex Blostein - *Goldman Sachs - Analyst*

First question, just on the share count. You bought back you through October a little over 3 million shares, but I guess if we look at the total share count, it hasn't moved all that much recently. Can you give us a sense of what the creep-in from either it's eSpeed or just like the regular comp-related share issuance, just get a better sense on over the next 12 months or so what the gross issuance or the gross creep up in the share count should be?

Lee Shavel - *The NASDAQ OMX Group, Inc. - CFO*

Sure, Alex. The annual share issuance associated with eSpeed is approximately 1 million shares each year, and then from a compensation standpoint, it's generally between 2 million to 3 million shares each year.

Alex Blostein - *Goldman Sachs - Analyst*

Got you. Thanks for that. My second one is, I was hoping to get your thoughts on the SEC's recent decision to hold a hearing on SIFMA's complaint about pricing and market data which I guess they agreed to do in early 2015. I guess from a time line perspective, was hoping to hear, how do you expect this to play out, and what your response is expected to be?

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

I'll let Ed answer part of this question. But first, I would say market data has been a debated topic in this industry now for decades, really, when you think back on it. So, this is a latest piece of a continuing saga, and we certainly don't see it have any impact in terms of our businesses. Ed, do you want to comment?

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

Yes. Very much consistent with what you said, Bob, we believe this claim is without merit. I would point out through the years, as Bob has alluded to, with the New York Stock Exchange, we have rebuffed these challenges, including a direct suit that SIFMA brought against the SEC that they lost. I think the record is very strong that we have a wide suite of competitively-priced data products that in many cases result in customers saving money across the board. I think that record is very strong.

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

What Ed is referring to is NASDAQ Basic. Really it has the ability and it's been one of -- I guess the most successful data product in our industry in quite some time, and it does reduce our customer's cost anywhere from 40% to 60%. So we're proud of that.



Alex Blostein - *Goldman Sachs - Analyst*

Got it. Makes sense. Thanks so much.

Operator

Our next question comes from Ashley Serrao with Credit Suisse. Your line is open.

Ashley Serrao - *Credit Suisse - Analyst*

First, on options market share, there's been a decline this quarter. I was hoping you could just shed some color on what's going on there, and maybe talk about the tradeoff between share and revenue capture?

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

Yes. Good question. Something we obviously deal with all the time in our transaction businesses. So we did see some decline in share, but it was certainly not directly correlated to revenue, in that the share we lost was from volume that was most attractively priced there. So, I think we're doing a very good job of optimizing those two dimensions, and we pay attention to it all the time.

Ashley Serrao - *Credit Suisse - Analyst*

Okay. And then just going back to NLX, as we head towards the ESMA rulemaking process in December, I was hoping you could shed some color on what you're hearing from both customers and regulators, as everybody lobbies each other.

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

I would say this. The NLX effort is not predicated on any ESMA rules. We're trying to leverage the horizontal clearing capability that LCH brings to the marketplace. So we're not trying to essentially gain access to a vertical monopoly at this point in time.

So NLX has a clear path. I would say, clearly the lobbying is very intensive, with respect to how ESMA would play out. I mean, the current set of ESMA rules as they're currently constituted, I think is very favorable for NASDAQ OMX. We are definitely proponents of the horizontal clearing model, and we support that. Hans-Ole, would you like to add anything?

Hans-Ole Jochumsen - *The NASDAQ OMX Group, Inc. - Co-President*

I think you are precise.

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

Trying to be.

Ashley Serrao - *Credit Suisse - Analyst*

Thanks for taking my questions.

Operator

Our next question comes from Jillian Miller with BMO Capital Markets. Your line is open.

Jillian Miller - *BMO Capital Markets - Analyst*

So this is going back to the Thomson Reuters business. You referred to some pricing you're offering to promote client relationships, and I wasn't sure if that was related to the subsidy issue, or if this is something completely separate; more related of to the competitive pressure that you mentioned in the investor relations product. Just wanted to get a little more detail on what's being offered, why you think it's necessary on that piece?

Lee Shavel - *The NASDAQ OMX Group, Inc. - CFO*

Certainly, Jillian. To be perfectly clear, what we were referring to was our continuation, extension of the subsidy that had been previously offered by the competitor. We believe that both from a relationship standpoint, as well as due to associated revenue from those clients that is non-subsidized, as well as what we see the opportunity of continuing to extend those relationships, it was absolutely the right economic decision for us to continue those subsidies; and that's precisely what we're referring to.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay. So there's nothing else, it's just that \$3 million that you already disclosed?

Lee Shavel - *The NASDAQ OMX Group, Inc. - CFO*

That's correct.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay. Good. Thanks. And then on the regulatory front, we're getting close to having the SEC's proposed Tick Size pilot with at least one of their embedded trade-up provisions. I was just interested to get your thoughts on how much we should be reading into this. Do you get the sense that the regulators and the industry are trying to test out a trade-up, if Test Group 3's data is successful it could be expanded to the broader market? Or do you think this has always been and will always be something that, in the regulator's mind, is kind of relegated to less liquid stocks and all of the industry-wide type of solution?

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

The first thing I'd say is when you look at the broad sweep of regulation across the globe, there is a strong trend line towards some trade at type, or trade at equivalent type of rule, and that's applying to most developed markets. I would certainly predict that in the fullness of time here in the US, you're going to see an evolution of the market structure rules, hopefully aided and informed by the results of the tick pilot. But I'd also say here at NASDAQ OMX, we're focusing on the world that exists today, and making sure that we can compete and better serve our customers.

If you've been following our daily midpoint liquidity product and service it's been growing in popularity, and that's allowing our customers to get price improvement, mostly in the dark, but it is price improvement in the context of the rule sets of an exchange. So we're proud about that. When you think about where we're going to go, we certainly will be a strong advocate for market structure changes. I think we'll improve our market, but we're also going to be quite pragmatic about making sure we do things today that work within the construct of the current rule set.

Jillian Miller - *BMO Capital Markets - Analyst*

Okay. Thanks, guys.

Operator

Our next question comes from Mike Carrier with Bank of America-Merrill Lynch. Your line is open.

Mike Carrier - *BofA Merrill Lynch - Analyst*

Thanks a lot. First, just on the revenues, if I look at the sequential change, it looks like there's -- if we exclude the transactions, given the seasonality, and then also the \$8 million in audit, it looks like you did -- sequentially it's down maybe 3%, and maybe FX impacted that as well, so maybe 2%. I guess I'm just trying to understand, when I think about like what's seasonally soft, so whether it's the tech business, if you had a little bit of seasonality this quarter, Corporate Solutions, just anything to try to get a sense on going into the fourth quarter, can you see some rebound? Because it just seemed like across the segments there was a little bit of softness, versus something like you pointed out, whether it's audit or in corporate solutions, that pricing change; just wanted to see if there was anything else that you would point out as more seasonality versus just core?

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

So Lee, why don't you answer that, let Adena fill in some of the blanks.

Lee Shavel - *The NASDAQ OMX Group, Inc. - CFO*

Sure. So Mike, I would say that from a Market Services standpoint, I think we generally saw lower levels of overall activity, reflecting some of that softness that Bob described as more of a traditional slowdown. Beyond that, we obviously had a strong listing business, due to the continued strong IPO market. And we had a mix in the Technology Solutions businesses, some areas of growth in the press release and the governance products, as well as some weakness on the Investor Relations products.

I think you generally would see slower activity in the third quarter from some of those event-driven businesses like the PR business, as well as the multimedia business. And so, I think, that probably had an overall contribution to some of the lower revenues in the third quarter. And in Market Data, there really isn't a lot of seasonality in that business, and with regard to Market Technology, there, typically our strongest quarter is the fourth quarter. The third quarter does tend to be a little bit on the slower side. Those are the elements of seasonality that I think we saw in the business in the third quarter. And I'll hand it over to Adena for any additional color on that.

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

Sure. Just a couple of additional details. With regard to the Market Technology business, in the third quarter, we tend to find that our clients request and execute fewer minor enhancements to their systems that we tend to work with them on. So what we call our client request revenue tends to lower in the third quarter, just based on vacations and other things happening among our client base.

And then with regard to the corporate solutions, as you mentioned, Lee, also in relation to the fact that over the summer it tends to be a slower period for a lot of corporate clients, that means that they request fewer multimedia events. They request fewer things where we provide service and get paid on more of on a one-time basis as opposed to the recurring revenue streams from most of our products there.



Mike Carrier - *BofA Merrill Lynch - Analyst*

Okay. That's helpful. And then just on the buybacks, just given the authorization, and given the pace that we saw in the quarter and in October, you just -- I guess any change in the outlook there, just given where the debt level is, what the maturities are going forward, and the cash flow, or is it going to be more of the same, ongoing and then opportunistic?

Lee Shavel - *The NASDAQ OMX Group, Inc. - CFO*

Michael, thanks. The answer is no change in our strategy. And I think the point that I want to emphasize is that we, as I've said a couple of times, we want to be opportunistic on the share repurchases. As you saw in the second quarter, with the impact of the Flash Boys, we were very aggressive in that quarter. In the third quarter, I think you saw a pretty steady trend upwards in the stock price. There weren't a lot of pullbacks for us to be aggressive opportunistically. And then clearly, in October, as we've disclosed, given some of the downdraft in the global markets, we saw an opportunity to be more aggressive.

So overall, we continue to remain committed to this as a significant means of returning capital to shareholders. We continue to believe that at these valuations there are very good returns on capital for it. But, we also want people to understand, we're going to be opportunistic quarter to quarter, and so that will create some variances. But overall, the share repurchase authorization is emblematic of our continued commitment to do that, when the opportunities exist.

Mike Carrier - *BofA Merrill Lynch - Analyst*

Okay. Thanks a lot.

Operator

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

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

Thanks. Just want to follow up on that question and answer regarding the revenues. So you guys give us the year-on-year growth rate which negates the impact of seasonality. And if we look at that growth rate, you're down 1% year on year excluding FX. You talked about some discrete items this quarter. If we back those out, so the negative impact from data and the pricing changes in Corporate Solutions, what would your year-on-year organic growth rate would have been in the quarter?

Lee Shavel - *The NASDAQ OMX Group, Inc. - CFO*

Excluding the market data which I think is the big impact, for this year-over-year period, we would be looking at 2% organic growth on a year-over-year basis. And I think that reflects some of the seasonality, and meaning that, I think that this -- recognize it's a year over comparison, that we feel as though it was a slower summer this year relative to last year that is contributing to some extent. But again, it's one quarter. If you look at our year-to-date performance for the non-transactional businesses, we still are within the guidance range that we have, that we set.

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

Okay. Fair enough. And follow-up question on the IR, PR business. If everything goes right there and you start firing on all cylinders with your next generation offering, what kind of revenue growth do you guys think you can do there? I know you've got, I think a mid single digit revenue target for that whole segment but I'm wondering specifically for the Thomson business.

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

We haven't disclosed that. I would say obviously we're focused on making sure the product is as good as it can be. The market itself is quite large. But certainly, we would aspire to have a double-digit growth rate in that business.

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

Thanks for taking the questions.

Operator

Our next question comes from Ken Worthington with JPMorgan. Your line is open.

Ken Worthington - *JPMorgan - Analyst*

First on pricing, I believe NASDAQ raised prices on listings, and other exchanges it raised prices selectively, both in trading and non-trading businesses. Maybe how do you think about pricing power based on the competitive nature of your businesses? And is pricing a relevant component of revenue growth, as we look out over the next two to three years?

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

One, I would say it will certainly be a component of our revenue growth, and we really look at how are we delivering value to our customers, and then are we being properly compensated for that value? So the listing business, we've spent a lot of time and effort growing the suite of products and services we offer to our issuers, and we have not raised prices for quite some time. So that was more than fair, and I think the uptake from our customers is representative of their view of that. And we do have the grand opening of our new market site coming up in the next two weeks, so we're excited about that. So, there is pricing capability, but we do it based upon how are we delivering value to customers.

Ken Worthington - *JPMorgan - Analyst*

And then what other areas do you think are most conducive to price increases, like just very broadly, I don't need the specifics, but what other areas?

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

Well, when you innovate and you're doing something that your competitors cannot do or will not be able to do for quite some time, then obviously, you have more pricing power. So when you look at how we're investing in our future and we're doing a number of things I classify that are blue ocean, where there's not strong competition or we're going to spaces where people don't exist today; that has the ability to have strong pricing power and strong margins. And you had, even with the seasonal slowdown, a strong margin in the third quarter. So we expect that to continue and hopefully improve.

Ken Worthington - *JPMorgan - Analyst*

Thank you very much.



Operator

Our next question comes from Niamh Alexander with KBW. Your line is open.

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

Thanks for taking my questions. On the Technology Solutions business, and you gave a lot of color there and I really appreciate it, and it sounds like you're probably ahead of plan maybe, on migrating some of the Investor Relations business as well in the Information Services. Looking near term to see if fourth quarter given the seasonality you pointed to in the third quarter, and with some issues there for the Technology Solutions, is there anything in the fourth quarter to share that would suggest that it should be weaker than the fourth quarter last year? Because it was a huge gap between third and fourth quarter last year, and there is some seasonality that benefits the fourth quarter. Is there anything that would change that this year?

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

Not that I'm aware of. Lee or Adena?

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

I think that in the fourth quarter of last year, we did have some significant new business coming into the Market Technology business, in terms of the fourth quarter of this year, there are certainly some opportunities there. But we don't have any major new clients coming online with a full solution in the fourth quarter of this year. But otherwise, no, there's nothing else.

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

So just to be clear, the new clients came on last year, Adena, would they have kind of given an unusual bump maybe, to the fourth quarter last year?

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

I think we had just -- we had significant kind of enhancement revenue in the fourth quarter of last year. We always have seasonality to that. I think the fourth quarter of last year was particularly strong. But otherwise, I think that we will find that it's generally business as usual across both of the parts of the business.

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

That's real helpful. Thanks. If I could go back to the options, and maybe Bob or Tom, if you're around. We've lived through in the equities in the past where you have a non-public competitor that's starting to gain some traction or some more traction, to really go aggressive on the pricing. They're already significantly lower than you, but they're taking a bit of share. Help me think about your philosophy, your latitude and your interest to maintain the market share levels, and your capacity to kind of not necessarily get down to where their pricing is, but to take more pricing hits along the way. It seems like it's a pretty profitable business for you, too. You can take a bit of hit on the pricing to maintain the market share. How do you feel about that?

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

The first thing I would say the context is somewhat different between equities and equity options. The market structure in equity options is different. There is internalization within the exchange itself and all option trades really have to be traded on exchange. In that internalization or allocation process, there is relative competitive advantages that are somewhat price insensitive, so we recognize that as a context.

But clearly, it's a competitive world in the options marketplace. You correctly identified that there will be some non-public irrational competitors. We've been in this movie before. I think we have a well-trained management team with Hans-Ole and Tom and the rest of the folks who will know how to play the game of chess and the optimization between profitability and market share. As I said previously, it's something we think about on a regular and consistent basis, and we definitely look for the proper balance. And I think, based upon some of the share we won at the cash rate we -- the share we lost and the cash rate we're receiving for that, I think it was the proper decisions.

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

Okay. We'll follow up later. Thanks.

Operator

Our final question comes from Neil Stratton with Citi. Your line is open.

Neil Stratton - *Citigroup - Analyst*

I just wanted to ask a question about NASDAQ Private Market. How do you think the revenue opportunity could progress over time? And part B, when do you think inflection would be more material to the top line? Thanks.

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

So, one, I would say the basic model for NPM is that a Company that's on NPM should generate two times the revenue than we get from a similarly-situated Company that's on the public market. And that's in consideration of the nature of trading that will exist on NPM, and how it will be conducted, and obviously the services we'll offer to these private companies, that are not always germane to a public company. That clearly will be material to us over time as these products and services grow, and the companies grow.

Right now we're obviously focusing on getting our experience in running liquidity programs for these companies, and also developing our product with cap table management. Because that is really, probably the first thing they're interested in, is to maintain control of their shareholder registry; and in addition to running a direct service, we can offer that through our liquidity programs there.

So, in terms of when this will be meaningful, we haven't clearly articulated that. But I think the thing to watch is how many companies we have and the capture per that level of Company, relative to public market. And I think you'll be surprised at the comparisons we can bring forward in the quarters to come.

Neil Stratton - *Citigroup - Analyst*

Thank you.

Operator

Ladies and gentlemen, that does conclude the Q&A session. I will now turn the call back to Bob Greifeld, CEO, for closing remarks.



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

Well, thank you, everybody for your time today. As we said, we had a seasonally slow quarter, aggressive expense management. Also, you saw again the diversity of our business models where three quarters of the revenue is recurring, resulting in a difficult quarter, record-tying earnings.

Fourth quarter has started at a lot stronger pace. We do hope that it continues. But regardless of that, we continue to execute upon our chosen business pathways here, and as I said previously, and in the written remarks, we see more opportunities in front of us right now for growth in this institution than we've seen, really since I've been here.

So we're excited about what we have accomplished in the third quarter, look to do even better in the quarters to come. And I thank you for your time.

Operator

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

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