IRO Ato Garrett Introduction

Good morning, everyone and thank you for joining us today to discuss Nasdaq's fourth quarter and full year 2023 financial results.

On the line are Adena Friedman, our Chair and Chief Executive Officer; Sarah Youngwood, our Chief Financial Officer; John Zecca, our Chief Legal, Risk, and Regulatory Officer; and other members of the management team. After prepared remarks we will open the line for Q&A.

The press release and earnings presentation are on our website. We intend to use the website as a means of disclosing material, nonpublic information and complying with disclosure obligations under Regulation FD.

I would like to remind you that certain statements in this presentation and during Q&A may relate to future events and expectations and 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.

Further, any references to organic growth will exclude impacts of changes in FX rates and the impact of acquisitions and divestitures, which this quarter is substantially all related to the two months of Adenza performance included in the fourth quarter and in the year. The Adenza results are included in Solutions revenue and within the Financial Technology division.

As a reminder, we are reporting results according to our new divisional structure starting this quarter. We have provided a reconciliation to our previous divisional structure in the appendix of our earnings presentation for reference.

Reconciliations of U.S. GAAP to non-GAAP results can be found in our press release as well as in a file located in the financials section of our Investor Relations website at ir.nasdaq.com.

I will now turn the call over to Adena.

CEO Adena Friedman Remarks

Thank you, Ato, and good morning, everyone, thank you for joining us.

Before we begin today, I'd like to welcome Sarah Youngwood officially to Nasdaq. Sarah has hit the ground running during her first two months as CFO, and we're excited to continue to benefit from Sarah's vast expertise moving forward.

Now, turning to my remarks. Today I will cover the following areas: the external environment and how Nasdaq is positioned for continued growth; highlights from our fourth quarter and full year financial and operational performance; and our company priorities for 2024. I will then turn the call over to Sarah for a review of our financial results.

I would like to start with our expectations for the external environment in 2024.

Over the past several years, the global economy and markets have been impacted by heightened complexity and unpredictability, underpinned by a dynamic and challenging geopolitical backdrop. We expect the geopolitical environment to persist and continue impacting global markets in 2024. However, we are starting to see encouraging signs that the economic environment, particularly in the U.S., is normalizing. Inflation is trending lower while the economy has remained resilient, which could give central bankers confidence to begin lowering rates later in the year to calibrate the cost of capital with a normalizing inflationary environment.

With that backdrop, and based on the data we've seen to date, we are cautiously optimistic for an improving business environment for Nasdaq in 2024. We have a healthy pipeline of companies that have filed to go public on Nasdaq. Additionally, throughout 2023 we benefited from $31 billion in net inflows into our index products, which presents a strong starting point for 2024. In the fourth quarter, we also saw early signs of normalization in sales cycles for our IR and asset owner solutions. Lastly, market volumes are off to a solid start in the new year, and client interest in our comprehensive suite of technology solutions remains very strong.

Turning now to our financial results.

In the fourth quarter: Nasdaq crossed the $1 billion mark in net revenues for the first time in a single quarter, achieving revenues of $1.1 billion. This was a 23% increase compared to the prior-year period, and a 7% increase on an organic basis.

We delivered 9% organic growth across our Solutions businesses during the quarter, while Market Services was flat.

For the full-year, net revenues of $3.9 billion increased 9% from 2022, or 5% on an organic basis. Solutions generated 7% annual organic revenue growth, which is consistent with our overall Solutions revenue outlook, despite a dynamic market environment. Our Market Services revenues were flat year-over-year, primarily due to continued muted volumes in Europe and on the back of strong performance in 2022.

Our Annualized Recurring Revenue, or ARR, ended the year at $2.6 billion, an organic increase of 6% year-over-year. The slower IPO environment as well as lower buying activity by Corporates for our IR Solutions contributed to more modest growth in ARR in 2023. Annualized SaaS revenues increased to $910 million in the fourth quarter of 2023. Excluding Adenza, this represents a 12% growth rate and 38% of total company ARR.

Across the company, we accomplished revenue growth and business expansion while maintaining our operating margin at 52% for both the quarter and the full year basis, excluding Adenza.

Our strong performance in 2023 illustrates the strength of our diversified business and ability to deliver against our longer-term objectives in an unpredictable environment.

We did this while taking an important strategic step in Nasdaq's evolution. On November 1st, we were pleased to complete the Adenza acquisition, and we are now working as one team to further our clients' goals for risk management and regulatory reporting excellence.

Reflecting on the past year, I am extremely proud of the Nasdaq team's accomplishments. With the establishment of our Divisional structure and the Adenza acquisition, 2023 was a transformational year for our business. Throughout the year, we achieved several major milestones to deepen our client relationships and advance our vision to be the trusted fabric to the world's financial system.

Now, let's review the highlights of our operational accomplishments and client successes by division, starting with Capital Access Platforms:

As you know, at Nasdaq, our exchanges are our foundation. We maintained our position as the premier U.S. exchange for IPOs with an 81% U.S. operating company win rate in 2023.

In total, we welcomed 103 operating company IPOs that raised more than $11 billion in proceeds, marking Nasdaq's fifth consecutive year as the leading U.S. listing exchange in terms of both number of IPOs and proceeds raised. In addition, 18 companies representing $377 billion in market value switched their listings to Nasdaq during the year.

In Index, we had $31 billion of net inflows for the year, including $10 billion in the fourth quarter. Our clients launched 83 new products linked to Nasdaq indices during the year, bringing to market robust solutions in line with investor demand.

Beyond our exchange and index leadership, we are a leading source of institutional intelligence to the buy-side through eVestment and have continued to expand our offering into alternatives and ESG.

We continued to broaden our ESG solutions in 2023, launching multiple new offerings to help corporates and investors navigate an evolving ESG ecosystem, including Nasdaq Metrio and eVestment ESG Analytics. We also introduced a suite of new solutions designed to help corporate clients drive governance excellence and accelerate their ESG strategies, including Sustainable Lens through IR Insight.

Turning to the Fintech Division.

With the completion of our Adenza acquisition, we have created a financial technology powerhouse of anti-financial crime, surveillance, market technology, and risk and regulatory reporting solutions, that positions us as a key risk management partner to the global financial system.

Our Calypso solution helps financial institutions navigate a range of market conditions, providing a live view of risk across proprietary and client trading portfolios with detailed analytics to support real-time risk management decision-making. Similarly, in an increasingly complex and fragmented global regulatory environment where risks need to be managed with shorter timelines at a granular level, our AxiomSL solution enables our clients to benefit from Nasdaq's global scale and expertise.

We now can be a comprehensive partner to banks, brokers, financial market infrastructure providers, and investment managers worldwide by helping them maximize their liquidity through world-class capital markets and risk management technology, as well as by enhancing integrity across the banking system with our regulatory reporting and anti-financial crime suites of solutions.

With the closing of Adenza, we are fully focused on engaging with our clients and new employees to ensure a smooth and successful transition and integration. Tal Cohen, Nasdaq's Co-President and leader of the Fintech Division, and I have personally been speaking with our clients over the past few months, and there is a lot of excitement around the potential opportunities now that Adenza is part of Nasdaq.

Adenza finished the year with strong new sales and upsells across its solutions. Specifically, in the last 2 months, we signed 6 new clients, including 2 central banks. We also expanded our relationships with 35 existing clients. For the full year, Adenza added 23 new clients, and expanded our relationships with 142 existing clients, including 3 cross-sells. We are thrilled to enter 2024 with Adenza as part of Nasdaq, and we are very excited to drive the business and the solutions to new heights in the years ahead.

Turning to Market Technology. In 2023, we bolstered our global client footprint with the addition of 7 clients, including 4 in the fourth quarter. We also expanded our relationships with 4 clients in the fourth quarter and more than 10 clients for the full year. Importantly, we had key technology client signings in the APAC and LATAM regions. We were proud to forge a new technology partnership with nuam exchange, which is a consolidation of marketplaces across Peru, Chile, and Colombia. We also expanded our relationship with Chile's Central Securities Depository with capabilities to manage Digitized Securities, with B3 in Brazil to develop a new clearing platform, and with BMV in Mexico to modernize its entire post-trade technology platform.

Our growing customer relationships highlight the importance of the financial technology we provide, which powers resilient and liquid markets around the world.

In our anti-financial crime suite of solutions, we are bringing world-leading technology, coupled with our consortium dataset from 2,500 banks, to fight the growing threat of financial crime in the global financial system. Our inaugural Global Financial Crime report, conducted in partnership with outside experts, estimates that over $3 trillion of illicit funds flows through the global financial system and $500 billion is lost to fraud. It is an enormous challenge that requires collective action across the banking sector, the public sector, and the embrace of advanced technology. We are very proud of our role in fighting financial crime, and we are finding tremendous opportunity to continue to expand our capabilities across the banking sector. In 2023, we reached a significant milestone in our anti-financial crime growth strategy.

During the year, Verafin, our fraud and AML solutions, signed its first 3 Tier 1 banks, as well as 4 Tier 2 clients, including one Tier 1 client and one Tier 2 client in the fourth quarter. We also partnered with a growing number of small-and-medium sized financial institutions, for a total of 237 new clients this year and 100 for the fourth quarter alone.

Additionally, we developed our first proprietary Verafin Gen AI co-pilot, which is now in Beta with customers. Our Generative AI tools reduce time and resources spent on manual tasks and processes, such as alert reviews, research, and documentation. By increasing their operational efficiency, Verafin enables our clients to invest in resilient growth at an attractive ROI.

In Surveillance, we signed 27 new clients in 2023, including 6 in the fourth quarter. We made significant strides in modernizing our solutions by launching a new cloud-based architecture and capabilities within our Surveillance user interfaces. These innovations give our clients the ability to calibrate their surveillance setup more efficiently and effectively.

Today, 50% of our Nasdaq Trade Surveillance clients leverage our cloud deployed solutions, which support access to 200 sophisticated alerts across more than 160 markets globally. As we continue to enhance our Surveillance capabilities, we are encouraged by the early adoption of our next gen cloud architecture and new user interfaces.

Moving on to Market Services. In the fourth quarter, we maintained our strong 72% market share for our Cash Equities markets in the Nordics, against a challenging volume environment across the European markets.

We have also continued to demonstrate a leading market position in the U.S. Equities and Options markets. In the fourth quarter we benefited from robust closing cross volumes from the

S&P, MSCI, and our own Nasdaq rebalance events, and we continued to experience growing adoption of our NDX Index Options product.

Additionally, we continued to advance the modernization of markets with successful migration of our second U.S. options market to the AWS cloud infrastructure, and with the SEC approval of the first AI-powered order type, called Dynamic M-ELO, which we expect to launch in the first quarter of 2024.

Altogether, we are moving with speed, while delivering revenue growth at an attractive margin profile that will drive shareholder value.

With the year ahead now in-focus, I would like to share our enterprise priorities for 2024.

Our first priority is to continue the successful integration of Adenza. We have made great progress in the initial phase of the integration and remain confident in our ability to deliver on the goals we laid out at the time of the deal.

Second, we are accelerating the impact of our divisional structure to activate and unlock new opportunities that will drive our business into the future. Over the past year, we have delivered significant progress across each of our business divisions, and we will continue to realize the benefits of this structure in 2024.

Third, we are institutionalizing client listening across the company to unlock revenue growth through a One Nasdaq approach to our client engagements. In 2024, we have a focused program to organize our client data, advance our CRM and other related systems, and enhance our processes across the enterprise to gain a holistic understanding of our clients, with the goal to drive partnerships and cross-selling opportunities going forward.

And fourth, we will further amplify the impact that AI has on the business and in our products. Nasdaq is leveraging several critical components to ensure AI is implemented safely, securely, and fairly. Through our focus on AI, coupled with the vast proprietary data sets that we have created over decades in our markets and in our solutions covering investment analytics, investor relations, and anti-financial crime, we are confident that we can extend Nasdaq’s competitive advantage in the years ahead.

We look forward to updating you on our progress on these priorities at Investor Day and in the quarters to come.

To wrap up, 2023 was another year defined by significant strategic and operational milestones and strong execution. As we look ahead to 2024, we are well-positioned to better serve our customers more holistically, as we become the trusted fabric of the world's financial system.

With that, I will now turn the call over to Sarah to review our financial details.

CFO Sarah Youngwood Remarks

Thank you Adena and good morning, everyone. I'm thrilled to be here for my first earnings call at Nasdaq. I could not be more excited to join the firm at such a transformational time, and I look forward to seeing many of you at Investor Day.

Now, I will turn to our financial results. My commentary will be focused on non-GAAP results, and year-on-year growth rates will be provided on an organic basis. Similarly operating margins will be discussed ex-Adenza for comparability purposes. I will discuss the Adenza standalone results at the end of the FinTech section.

Before we move to the quarter, I would like to give you the highlights for the full year 2023, starting on slide 12 of the earnings presentation. In an uncertain environment, we delivered solid financial performance, and strong cash flow generation. Revenue of $3.9 billion was up 5%, with Solutions revenue of $2.9 billion, an increase of 7%. Non-GAAP expense was $1.8 billion, up 5% – in line with guidance – for a 52% operating margin, which was flat versus the prior year.

This resulted in diluted EPS of $2.82, reflecting organic growth of 6%. We had $1.6 billion of free cash flow ex Adenza, a growth rate of 11%.

Moving on to the fourth quarter on slide 13. We reported revenue of $1.1 billion, up 7% with Solutions revenue of $860 million, an increase of 9%. Non-GAAP expense was $504 million, up 2%, and with an operating margin of 52%, up 3 percentage points. Overall, this resulted in diluted EPS of 72 cents, reflecting organic growth of 11%.

Turning to slide 14, ARR totaled $2.6 billion, up 6% organically. The annualized SaaS revenues totaled $910 million, representing organic growth of 12%. Excluding Adenza, SaaS was 38% of ARR, an improvement of 2 percentage points. Including Adenza, that number is 35%, which will improve as the cloud portion of their revenue increases. As a reminder, we only consider the cloud portion of their revenue to be SaaS.

Let's review division results for the quarter, starting on slide 15.

For Capital Access Platforms, revenues of $461 million increased 10%, driven by excellent performance in Index.

In Data and Listings Services, we saw 3% growth. In Data, we have seen a continued increase in proprietary data revenues, driven largely by higher international demand. In Listings, the positive impact of pricing was partially offset by the combined impact of de-listings, a muted IPO environment, and the roll-off of prior years' initial listings revenue.

Workflow and Insights revenue increased 3%. Analytics delivered high-single-digit growth, reflecting our ability to monetize the value of our data to the buy side, with new business and increased pricing, across traditional and alternative asset managers. The strength in Analytics was partially offset by a weaker capital raising market and the impact of elongated sales cycles in Corporate Solutions.

Index revenue increased 26% and overall AUM grew by 34%. Over the last twelve months, our net inflows were $31 billion, 10 billion of which occurred during the fourth quarter. Licensing revenues for futures contracts linked to the Nasdaq-100 index increased as well, driven by higher capture, partially offset by a decline in trading volumes. As a reminder, our capture increases once we cross a volume threshold – and then resets at the beginning of each year. While smaller in size, index revenue also benefited from index data revenue growth.

ARR for Capital Access Platforms was $1.2 billion, up 3%. ARR growth was largely driven by Analytics and to a lesser extent – data and listings. The muted IPO environment impacted ARR growth. However, we are cautiously optimistic that we could see a recovery in IPOs, combined with more normalized sales cycles, as we progress through 2024. As a reminder, substantially all of Index revenue is excluded from ARR.

The division’s operating margin was 54% for the quarter, an increase of 4percentage points, due to higher revenues. For the full year, it was 55%, up roughly 50 basis points. The increase was driven by higher revenues, partially offset by inflation, revenue-related expense, and investments, in particular across data and index.

Moving to Financial Technology on slide 16, the division delivered revenue of $399 million for the quarter, up 8%. Regulatory Technology grew 17% with Verafin at 25%. Verafin added 100 new clients this quarter, including our third Tier 1 bank. While we are excited about these additions – as we have previously discussed – the contracting and implementation with these larger, more complex institutions is longer. We will start recognizing subscription revenue in 2024, but we believe that the uptake will only accelerate, as we expand relationships with these clients.

This strong performance of Verafin, along with 6% growth in Surveillance, led to the 17% growth of Regulatory Technology. For Surveillance, the fourth quarter growth was impacted by the timing of bookings in 2023 vs. 2022, but fundamentals remained strong for the year, with 6 new clients in the fourth quarter and 27 for the full year. We also made inroads with the Tier 3 broker client cohort, which reflects progress beyond our leadership position with large banks. Cloud for Trade Surveillance is now above 50% deployment, which is an important driver of client stickiness, through the speed and efficiency, it enables us to provide.

Moving on to Capital Markets Technology, we saw 3% growth, driven by data center connectivity demand. We had new Market Tech contract signings in Latin America, and with one of our US Tier 1 clients. We expect these contracts to start to accrue in 2024. As Adena mentioned, we continue to increase our Market Technology presence in Latin America, and to have a leading role in the modernization of markets in the region.

ARR for FinTech totaled $1.35 billion, an increase of 10%, due to continued customer wins at Verafin, as well as growth in Trade Management Services and Market Technology. The division's operating margin in the fourth quarter was 40%, up 4 percentage points. The organic margin expansion reflects solid top-line growth and expense control, with an overall increase in revenue-related costs, offset by efficiencies and lower professional fees. We are progressing on our journey to improve the efficiencies in Market Technology, while continuing to support the growth of Verafin and Surveillance. For the full year, the operating margin was 40% up 5 percentage points, with a story, which mirrors that of the quarter, including strong operating leverage and investments.

Before closing on FinTech, a few additional words on Adenza. For November and December, Adenza contributed $149 million in revenue, $458 million of ARR, of which $98 million was in SaaS, and $35 million in non-GAAP operating expense.

A strong finish to the year drove a 77% operating margin for our 2-month ownership. On a full year basis, Adenza had an adjusted EBITDA margin of 59%, ahead of our initial 58% outlook for the year.

Let me now talk about Adenza's full year revenue and ARR. Revenue was $583 million in 2023, up 14%. ARR of $458 million grew 16% excluding a significant bankruptcy that occurred during the year, or 14% net of it. Both metrics are on a constant currency basis. We had nearly 50% of new ACV coming from cloud this year. The strong cloud take-up by our clients supports our growth and efficiencies. Revenue growth benefited from a large portion of ARR up for renewal in the quarter and in the year.

Going forward, we expect Adenza's revenue growth to be in the low-to-mid teens, consistent with the medium to long term outlook we provided when we announced the acquisition. The timing of contracts being up for renewal, and the mix of revenue between cloud and on-premise delivery, will have an impact on revenue growth in any given quarter and year. This is why we are focused on ARR growth, which is not as impacted by in-year renewal and delivery method. We'll provide more details on the revenue dynamics of our FinTech Division at Investor Day.

And wrapping up our divisional overview with Market Services. Net revenue was $247 million for the quarter, roughly flat, with growth in U.S. cash equities, offset by decreases in U.S. Options. U.S. cash equities growth was driven by higher capture, partially offset by lower share. In a very competitive U.S. Options environment, we are defending our strong market share lead, and our attractive capture. Meanwhile, in Europe, tepid exchange volumes were positively offset by a $7 million non-recurring payment and by the benefits of diversification between fixed income and Equities. The investments we have made in leveraging our technology and data to provide our European markets clients with transparency, helps them to generate alpha. This has enabled us to help our clients improve their execution quality and has been key to our ability to reclaim our 72% market share, a 2 percentage points increase.

The division's operating margin was 57% in the fourth quarter 2023, compared to 60% in the prior year quarter, as a result of higher compensation costs, as we continue to invest in our people and higher technology costs, due to ongoing investments, related to both capacity, and migrating U.S. markets to the cloud.

The full-year operating margin for the division totaled 59%, with the same drivers as the quarterly story.

Turning to slide 19, this quarter's non-GAAP operating expense was $504 million, an organic increase of $8 million or 2% vs our organic revenue growth of 7%. I went through the story in the businesses, and it reflects good expense discipline, as well as the timing of marketing and professional fees in the quarter. Overall, this reflects a 52% operating margin, up 3 percentage points.

For the full year, our non-GAAP operating expense was $1.83 billion, in line with guidance. We were up 5%, consistent with revenue growth, for a flat operating margin at 52%.

The increase is due to investments in key growth areas, inflation, and higher revenue-related expenses. We also achieved efficiencies during the year as we continue to optimize our location footprint and bring the divisions together as part of our divisional realignment. If you include Adenza for the full year, operating expense totaled $2.05 billion.

Now on to guidance. We are initiating 2024 non-GAAP operating expense guidance of $2.105 billion to $2.185 billion, the midpoint of which reflects pro forma growth of 5%. This includes a full year of Adenza, and the in-year expense benefit of net synergies. On an organic basis, excluding Adenza, Nasdaq's expense growth would be just under 4.5%.

We will spend more time on synergies at Investor Day, but we reiterate the net $80 million synergy target by the end of 2025, and $80 million cost to achieve, as set forth in the restructuring program we just initiated.

Additionally, we are guiding to a full-year tax rate of 24.5% to 26.5% on a non-GAAP basis, slightly higher than 2023 due to a lower expected tax benefit on equity awards.

Turning to slide 20. Strong free cash flow continues to be the hallmark of Nasdaq. For the year, we had $1.6 billion of free cash flow ex Adenza, and Adenza had $306 million in unlevered, pre-tax free cash flow.

Our gross leverage ratio was expected to be at 4.7 at the time of deal close, but we are pleased to share that, at year-end, we are at 4.3, despite 0.1 headwind from Euro strength.

Let's go through the details on the chart. At the end of the third quarter, our adjusted leverage ratio was 2.4. We added the leverage to acquire Adenza. At the beginning of December, we paused share repurchases and repaid $260 million of term loan. The ratio benefited from the incremental EBITDA from Adenza's full year and Nasdaq's growth. We expect to continue deleveraging in the first quarter of 2024.

And, to wrap up on free cash flow utilization. We have repurchased $269 million of our common stock this year, including $110 million the fourth quarter, and we paid a quarterly dividend of 22 cents per share, for a 35% annualized payout ratio.

In closing today, this quarter and this year's performance shows Nasdaq's ability to deliver consistent growth, margin, and free cash flow in a range of environments. We are committed to disciplined execution and continued innovation. The investments we have made in our resilience, our technology, and our data over the years – coupled with our reach and track record – position us for sustainable growth, as we power our clients' success.

Thank you for your time, and I will turn it back to the operator for Q&A.

CEO Adena Friedman Closing Remarks

Thank you. As we enter another transformational year at Nasdaq, we remain focused on activating and unlocking new opportunities that will drive our business into the future.

Before we close, I want to remind everyone that we have scheduled our 2024 Investor Day for Tuesday, March 5. We hope to see you all there, either in-person or virtually, and look forward to sharing our vision with you.

Thank you all for joining and have a great day.

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