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EDITED TRANSCRIPT

NDAQ - Q2 2016 Nasdaq Inc Earnings Call

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OVERVIEW:

Co. reported 2Q16 revenues of $559m and non-GAAP net income attributable to Co. of $153m or $0.91 per diluted share.

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PRESENTATION

Operator

Good day, ladies and gentlemen. Welcome to the NASDAQ second-quarter 2016 conference call.

(Operator Instructions)

As a reminder, this call is being recorded. I would now like to introduce your host for today's conference, Ed Ditmire. Vice President, Investor Relations. Please go ahead.

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

Good morning, everyone, and thank you for joining us today to discuss NASDAQ's second-quarter 2016 earnings results. On the line are Bob Greifeld, our CEO; Ron Hassen, who was our Interim CFO and is acting as our Principal Financial Officer until the filing of our second-quarter 2016 Form 10-Q; Michael Ptasznik, our new CFO; our Chief Operating Officer and President, Adena Friedman; President Hans-Ole Jochumsen; Ed Knight, our General Counsel, and other members of the management team. After prepared remarks we will open up to Q&A.

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. And now I'll 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 review NASDAQ's second-quarter 2016 results. Certainly, when you look at our performance this quarter and during the first half of the year, the balance of our business model continues to demonstrate its resiliency. As I have pointed out to you before, while we are not immune to market forces and significant global events, we are, however, intensely focused on serving our clients and supporting them throughout pivotal moments in their evolution. As a FinTech Company, technology has always been the fundamental focus that drives our decisions, and ultimately, enables us to expand and grow our competitive position in the marketplace.

During the quarter, NASDAQ delivered record revenues of $559 million, as well as a record non-GAAP operating income of $259 million. We achieved non-GAAP EPS of $0.91, which ties our all-time high and is a second-quarter record. It represents a 10% year-on-year increase and underscores our ability to deliver double-digit shareholder returns through EPS growth and dividend yield.

Clearly, organic revenue growth is one of the key benchmarks by which we judge our progress, and I am pleased to report that it was positive in all four segments. Our non-transaction segments combined delivered a very respectable 4% organic growth in the second quarter versus the prior-year period.

The biggest standout was in our technology solutions segment, which saw organic growth of 6% when compared to the prior-year quarter. Truly outstanding, and this was driven by recent business wins and continued growth in market technology, including smart surveillance and revenue recognition of our Borsa Istanbul contract.

On top of the organic progress, we also closed two important acquisitions during the quarter in ISE and Boardvantage. We are now clearly in execution mode on all four acquisitions we completed during this year. We have been and will continue to be maniacally focused on delivering maximum value in each of these deals for our clients and our shareholders, and I'm pleased to report we've achieved the first $10 million of synergies in the second quarter.

When we look at how we are improving our competitive position across this franchise and all the businesses in which we compete, we are doing it in a variety of compelling ways: one, through organic investments in fundamentally disruptive technologies and also organic growth initiatives, as well as expansion through acquisitions that lever our core competency. I want to talk about our progress this quarter in the context of these three core areas of focus and highlight how they continue to drive client opportunities and growth.

As I mentioned, organic growth reinforces that we are on the right track strategically and in terms of running our businesses well. It's also a sound endorsement that we're doing the right things on behalf of our clients.

In our market services segment, we continued to focus on creating one of the most robust multi-asset platforms in the industry for our clients. To this point, or perhaps most exciting for us right now, is the progress of NFX. We just passed the one-year anniversary since the launch, and we've hit three major milestones around that one-year mark. First, we had just this week our first 5% market-share day; second, we had our 100th firm transact on the platform; and third, we've gone over 1 million contracts in open interest.

Operationally, we began a new chapter in the NFX story when we introduced fees in the beginning of May. In the two-month period that followed in May and June, I'm pleased to report that open interest ended 22% higher, while average daily volume was 27% higher. Our market share during the same two-month period increased by 70 basis points, a 29% improvement. As I said before, pricing is being introduced at modest but meaningful levels in the products that have already seen a meaningful liquidity build. We will continue to price according to the value we are delivering to our customers.

In addition, we are already off to a strong start in the second half of the year. This is against a backdrop that features macro and geopolitical volatility, as well as progress we've seen on strategic initiatives such as our acquisitions, and I will come to those a little bit later. Given our momentum, we are in a strong position to defend and improve our competitive position in our trading basis, something that has and always will be fundamental to our future.

In our listing services business, organic growth continued to be solid at 3% during the quarter. Overall, NASDAQ remains the new listings global leader in the first half of 2016, with a total of 167 new listings, including 68 IPOs and a 73% win rate in our US market.

One standout for us has been the performance in the Nordic markets, where we saw 47 new listings in the first half of the year with over EUR4.2 billion in capital raised. Included in these numbers was the largest IPO of the year globally, the DONG Energy listing on our Copenhagen market.

We also continued to maintain strong exchange listing transfer momentum in the US. We had 13 companies switch from NYSE in the first half of 2016. They were led by such great companies as Scripps Networks Interactive; Tronc, which is formerly Tribune Publishing, OPKO a leading biotechnology company. Since 2005, over $830 billion in market value has chosen to switch to NASDAQ, including $43 billion in the first six months of 2016. Truly outstanding.

Elsewhere, we also continued to improve in ETF listings. NASDAQ added 61 new listings in the first half of the year, including 24 switches, leading the industry with a 39% share of new listings switches and driving the total number of ETP listed at NASDAQ to 277 at midyear, up 57% versus the prior year.

While still clearly an early-stage initiative in terms of revenue, we continued to see strong operational traction in NASDAQ private market. We saw 133 private companies use our platform in the second quarter, more than doubling from 62 in the prior-year period. We also are working to expand our offering, the private market opportunities continues to grow. We have new clients coming on board just recently such as [Ucero] and Skybox.

During the first half of 2016, the private companies secondary markets saw the number of transactions grow by over 20%. The dollar volume rose most significantly, 135% year over year. Again, other outstanding performance.

As I mentioned before, our technology solutions segment saw the most dynamic growth during the quarter, achieving 6% organic growth. This was driven by market technology business, which benefited from continued strong trends in the surveillance, post-trade, and GRC spaces, but also as revenue recognition starts to reflect more of the recent period's significant business wins. These are just a few of the examples of how our focus on efficiency and serving clients continues to manifest itself in our results and improve our competitive positioning.

Now, as you know, in addition to organic growth, strategic acquisitions are core to our growth strategy and will deliver increased value to our clients. Let me give you a brief update on our progress.

As I mentioned, during the quarter, we closed two acquisitions: ISE and Boardvantage. With ISE, we closed the transaction at the very end of June, and I'm pleased we're able to do so in such a timely fashion, less than four months from announcement and executing on a financing package at lower-than-expected costs.

We are intensely focused on leveraging our platforms to provide new capabilities and functionalities to clients of the combined businesses. We are off to a strong start, and since closing the transaction, our combined options market share has remained very close to the 40% level, combining all our franchises together. It's certainly an early sign that the market understands and is responding positively to our client discussions and how the combination will deliver greater value and opportunity.

Upon closing the transaction, we've already realized approximately $8 million in annualized run-rate synergies, a first step against a total $40 million synergy opportunity. And I am pleased to report that the transaction is immediately accretive to non-GAAP earnings, very similar to Philly [if you remember running] back in the day.

Of course, we are targeting much higher synergies as we continue integrating our technology assets and teams and migrating to our core trading platform. I'm looking forward to updating you on that progress, as well as our progress at integrating and migrating our Nasdaq CXC business onto our core trading platform in the quarters to come.

In our corporate solutions business, we closed Boardvantage in May and are well underway with the integration and our focus to provide one of the most robust set of boarding collaboration tools in the marketplace today. Taking the Boardvantage acquisition together with the first quarter's close on the Marketwired acquisition, our expanded footprint in PR distribution and [governing] space gives our corporate solutions business a heavier mix to what we believe are the higher growth, higher-margin, and more scalable businesses as well as material cost synergy opportunity.

We achieved $2 million in run-rate synergies in the second quarter versus a targeted $20 million opportunity within 18 months of closing. Perhaps even more importantly, as we work more broadly to return corporate solutions to positive organic growth, the two deals bring approximately 7,500 new corporate clients to expand our relationships and drive new cross-selling opportunities across this franchise.

In summary, during the first half of the year, we closed four acquisitions on or ahead of schedule at significantly better-than-expected financing cost. Based on that, as well as our increased confidence in revenue trends and synergies, we feel comfortable raising the 2015 diluted EPS accretion number to $0.40 per share from the prior $0.37 we provided during our March investor day. The $0.40 accretion assumes 2015 pro-forma results with full synergy realization, certainly very good progress so far.

As a financial technology Company, our ability to see around corners and apply technology in new and innovative ways for clients is fundamental to our success and the future of the franchise. I want to briefly highlight our ongoing progress during the quarter.

In May at our semiannual Future of Technology Conference for market technology customers in Stockholm, with the largest customer attendance ever, we announced a significant step in the evolution of how we will deliver technology to our clients and our internal systems as well. The Nasdaq Financial Framework is a result of listening to our clients and the results of significant R&D effort. It truly transforms our offering into a more modular approach that will enable more flexibility in the way our clients use our solutions.

The heart of the framework will be an open-end; high-speed communication, operations, and resiliency layer that will allow us to more effectively introduce new functionality, including blockchain capabilities across the entire trade lifecycle for clients. It's early days yet, but we are excited about the potential this innovation will bring to capital markets as we begin to roll it out later this fall, and the interest and conversation levels with current and potential customers has been remarkable.

Likewise, in our corporate solutions business, we continue to accelerate the rate of innovation and new solutions we're putting onto the platform. For example, we continue to enhance IR Insight, even as we dedicate significant resources to the migration of thousands of users onto the platform. In June, we announced the addition to the platform of IR Analytics, which will provide clients with dynamic enriched data dashboards to help them analyze large amounts of data from multiple sources and make better decisions about how they allocate finite valuable resources to pursue their objectives.

In addition, we also introduced NASDAQ Influencers to our PR and communications suite where we are empowering communications and marketing clients around the world to tap into an increasingly important network of thought leaders. These are just a few examples of the types of ongoing innovation occurring at NASDAQ, in addition to proofs of concepts we continue to develop to better leverage new technologies like machine learning and blockchain to improve our clients' workflow and alleviate business complexity.

In closing, I am proud of the team and the results we delivered this quarter. It is certainly indicative of our strong ability to execute against a variety of backdrops while continuing to meet our clients' needs. Perhaps, though, what is most exciting for me is the level and intensity of innovation occurring throughout this organization. As I've stated before, I do not judge our business on backward-looking financial results but forward-looking measures, such as how are we meeting our clients needs and how is our relative competitiveness. In both of these most important measures, it has been the most outstanding quarter. We look forward to the second half of the year and hope to execute just as strong for both our clients and shareholders as we did for the first half of the year.

Before I turn the call over to Ron Hassen, I want to introduce everyone to our new Chief Financial Officer, Michael Ptasznik. We are very excited to have him join the team with over 20 years of experience. We certainly look forward to working with him and benefiting from his extensive experience on both the financial and operational sides. This is a particularly busy time in our Company's evolution. We know Michael is a great asset for the team and you will enjoy getting to know him and working with him. Welcome, Michael.

I also want to thank Ron for his dedication in guiding us through this transition, as well as working and serving as our Corporate Controller over my entire tenure at NASDAQ. His contributions have been immeasurable. He will be missed. Now I turn the call over to Ron Hassen one last time to review the financial details.

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

Thank you, Bob. Good morning, everyone, and thanks for joining us today. My commentary will focus on our non-GAAP results. Later in my prepared remarks, I will discuss the period's differences between US GAAP and non-GAAP results. Reconciliations of US GAAP to non-GAAP results can be found in the attachments to our press release and in the presentation that's available on our website at ir.nasdaq.com. I will start by reviewing the second-quarter revenue performance relative to the prior-year quarter, as shown on page 4 of the presentation.

The 8%, or $41 million, increase in reported net revenue of $559 million consisted of organic growth in market services net revenues of $1 million, or 1%, resulting principally from higher access fees or revenues. Organic growth in non-trading information services, technology solutions, and listing service segments totaled $13 million, or 4%. In addition, there was $24 million in revenues from our recently completed acquisitions of Marketwired, Boardvantage, and Nasdaq CXC. Year-over-year changes in FX rates increased revenues by $3 million.

I am now going to go over some highlights within each of our reporting segments. All comparisons will be to the prior-year period unless otherwise noted. Information services, on page 6, saw $3 million in organic growth, a $2 million increase related to Nasdaq CXC acquisition, and a $1 million increase due to the positive impact of foreign exchange.

Data product revenues increased 8%, including organic growth in consolidated and proprietary data products revenues, as well as a growth in ordered collections. Index licensing and services saw a $2 million decline due to lower average assets under management in the period, which was primarily due to the clients' and market values.

Technology solutions, as shown on page 7, increased $28 million, reflecting a $19 million contribution from the acquisitions of Boardvantage and Marketwired, $8 million, or 6% organic increase. The non-GAAP operating margin was 18%, up from 14% in the prior-year period. We continue to have confidence in reaching our medium-term objective of 20% and expect further year-over-year progress as we move forward.

Corporate solutions revenue increased due to the impact of the two acquisitions. We continued to believe we are on a path to return to organic revenue growth in corporate solutions in the coming quarters.

Market technologies revenues increased by $10 million, or 17%, primarily due to increased revenues from licensing and support contracts, change requests and surveillance products. New order intake was $69 million in the second quarter, and at the period end, backlog finished at $769 million, up 9% year over year.

Listing services, which is on page 8, saw a $2 million, or 3% organic increase in revenues, driven primarily by increase in the number of listings. Non-GAAP operating income margin of 43% was down from 44% in the prior-year quarter.

Market services, which is on page 9, saw a $1 million, or 1%, organic increase in net revenues, plus a $3 million increase due to the acquisition of Nasdaq CXC, and a $1 million positive impact from foreign exchange. Non-GAAP operating income increased to 54% from 53% in the prior period.

Equity derivatives trading and clearing net revenues increased 5%, primarily due to the higher US industry trading volume and market share. Cash equities net revenue increased 2%, due to the higher industry US volumes and the inclusion of revenue from Nasdaq CXC, partially offset by lower market share in both the US and European markets and lower capture rate in the US.

Fixed income, currency, and commodities trading and clearing net revenues decreased by 13% from the prior year, principally due to the impact of NFX-related trading incentives and a lower US treasury revenues, partially offset by growth in European fixed income and commodity trading. Access and broker services revenue increased by 8% due to an increase in customer demand across most product areas.

Before we turn to expense trends, I'd like to take a moment and give some detail around the non-GAAP adjustments this quarter. First, we had a $33 million restructuring charges related to the completion of the restructuring program that began in the first quarter of 2015. The total cost of the restructuring program was $214 million, which included $119 million related to the write-off of the OMX trade name. Excluding the write-off of the trade name, the restructuring cost was $95 million. The estimated annual savings associated with these costs are $36 million, which will result in a three-year recovery.

Second, we had $35 million in charges related to the acquisition and integration activity of substantially all of this related to the ISE acquisition. Third, during the quarter, we received an unfavorable tax ruling which resulted in a $27 million charge on our tax line.

Turning to page 10 to review expenses, non-GAAP operating expenses increased $19 million. The increase included $15 million due to our acquisitions and $4 million in organic growth.

Turning to slide 12, our revised 2016 non-GAAP operating expense guidance has increased by $35 million from the prior guidance to reflect the expected impact of the acquisition of ISE. Non-GAAP operating income in the second quarter increased 4% on an organic basis and 9% in total. Non-GAAP operating margin came in at 46%, up 50 basis points from the prior-year period.

Net interest expense was $31 million in the second quarter, an increase of $5 million versus the prior-year period, reflecting the additional interest expense from our recent bond offering. Non-GAAP effective tax rate for the second quarter of 2016 was 33.8%, within our unchanged 33% to 35% full-year guidance. Non-GAAP net income attributed to NASDAQ was $153 million, or $0.91 per diluted share, compared to $143 million, or $0.83 per diluted share, in the second quarter of 2015.

Moving on to cash flow and capital, please turn to slide 15. We repurchased $16 million in stock during the quarter -- during the second quarter of 2016. We purchased an additional $8 million in the first few days of July of 2016. Through dividends and repurchases, NASDAQ returned nearly $70 million in capital to shareholders during the second quarter of 2016. As of July 26, there is $476 million remaining on the Board repurchase authorization plan.

Now, as many of you know that the time I served as interim CFO coincided with my planned retirement from NASDAQ after serving 14 wonderful years as the Corporate Controller. And so I am probably even more excited about Mr. Ptasznik's arrival as the new CFO than the rest of the team. In addition, to welcome Michael, I wanted to thank Bob, Adena, Hans-Ole and the rest of the NASDAQ management team and the Board for the opportunity to serve as the interim CFO.

To the analysts and the investors I met during this period, it was truly a pleasure talking to you about NASDAQ, a Company that is positioned well to move forward to tackle its unique opportunities. Thank you for your time, and I turn it back over to Bob.

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

Thank you, Ron. As I said before you will be missed and your sense of humor will be impossible to replace.

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

Thank you, sir. Appreciate that.

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

Operator, should we open up the queue for Q&A?

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Rich Repetto, Sandler O'Neill.

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

Good morning, Bob. How are you?

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

I cannot complain.

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

Congratulations on the record quarter. First question is, you beat -- on the revenue side at least versus us, on technology solutions with a good portion driven by the market technology, and I know you've given three reasons why it did so well.

I guess the question is, how much is one time? How much can be -- is in that --will improve the run rate going forward, whether it's the licensing fees, the change of requests or like surveillance seems like it's an ongoing thing. So I guess to give us an outlook on market technology going forward, because that was a [clear beat].

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

I will turn it over to Adena, but I do want to make it very clear, this business is really doing incredibly well across a number of different areas. So we highlighted a couple, but our competitive position as a result of our technology initiatives, our technology investments, are focused on the customers certain to starting pay off in a major way.

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

Great. Hello, Rich, how are you?

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

Hello, Adena.

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

In terms of market tech, I think that there are, as you said, three factors. The Borsa Istanbul revenue recognition is ongoing benefit that we will see. In the second quarter, it had about a $4 million positive impact, and an ongoing basis subject to FX, it should have somewhere in that range of $6 million of quarterly benefit to us.

I think that the second thing was the CRs, and those tend to be -- they ebb and flow quarter over quarter; there's some seasonality to that. It's based on change requests that our clients ask for. We got off to somewhat of a slow start to the year, but the second quarter was a great quarter for us in terms of the CR revenue. And we do tend to see that happen, and both the second and fourth quarter tend to be our strong this quarters there.

And then lastly on SMARTS, you're right, that the SMARTS trade system is a SaaS-based model. So when -- we about a $2 million impact there and that would be an ongoing uplift that we can enjoy going forward, as we continue to sell more of that service throughout the clients. So, were very excited about how market tech continues to progress.

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

Okay. Very helpful. And since this is Ron's last call, Ron, on the outlook for expenses, if you back off -- back out the first half, you come up with the midpoint somewhere around $330 million in expenses per quarter. I'm trying to see -- we know we got the IC. We know we got a small portion of Boardvantage in there. But to me that would -- it might be an incremental uptick of somewhere around $20 million and you've got synergy. I would expect some of the $52 million that you haven't realized yet.

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

Yes. So you're right. ISE is an effort around $18 million and if you normalize for Boardvantage for a full quarter, you're there at about $3 million. We gave you guidance also on R&D is between $35 million and $45 million. We expect to spend a large part of that in the second half. So you'll see some of that expense coming in. And then we're seeing higher activity where we have gross up in expenses and revenue from some of our corporate solutions businesses, which kind of make up that amount to bring you to roughly around the $330 million range.

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

Okay, thanks. That's helpful, Ron. Bob, one last quick question. Great results. The one thing I wanted to ask about is on the market share, if you look at the market share in US equities, it's hitting a low in July. I know it's low volatility. It doesn't look like you're losing it to competitors rather than the TRF. But how do you -- is that a -- I know you monitor it, but how do you think about that?

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

That is -- your point is well taken. When you see [tape] C relative to A and B, we've had a greater use of the TRF there. So we don't quite understand why that is, but it is what it is today. I'd also say as a general statement, our [caps[rate, as you saw in the quarter was high. And as I've said before, we try to balance that. And I think you'll see us go forward taking a number of different actions which will probably increase market share but still keep a robust capture, but maybe not at the $0.50 level.

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

Understood. Understood. Thanks and congratulations again on the record quarter.

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

Thank you.

Operator

Ashley Serrao, Credit Suisse.

Marcus Kearney - - *Analyst*

This is a Marcus [Kearney] standing in for Ashley Serrao.

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

How are we doing Marcus?

Marcus Kearney - - *Analyst*

Not bad. How are you?

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

Can't complain.

Marcus Kearney - - *Analyst*

Excellent. Two quick questions. One, I was wondering if you have an update on the IR solutions client conversions, where we are in the process and how retention has fared?

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

Sure. So, we continue to be on track with the IR conversions. And in fact, I think that we've been accelerating that as we've been going through the quarter. It's been -- people are receiving the product extremely well. We've built in an automated migration tool that's really helped, and clients are very excited about being able to get access to the new product.

So far we've -- I just want to make sure that I get the right numbers here. We've upgraded 1,600 clients to the IR Insight platform and 2,800 users. So we continue to be on track to complete that through this year.

And generally, in terms of the client retention, it is a very competitive market out there, but we are seeing very good improvement both in terms of how our clients are taking the product and retaining our users in addition to selling the product and competing against our tough competitors.

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

I think with respect to this business, it's important to recognize we come at it, as we talk about as a technology Company. So this is a game-changing release that we're putting out there, but we've only just begun. So there's active efforts to continue and invest in the product, and that's where our skills, our abilities, I thin are unmatched. >And customers are starting to recognize, when you think about long-term direction, NASDAQ is providing it.

Marcus Kearney - - *Analyst*

Excellent. Thank you. And then quickly on capital management, just wondering how you're thinking about buybacks versus paying down debt? And whether you still view the M&A market as frothy?

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

I'll say two things. One, with respect to buybacks, we're committed to do buybacks. You saw the Board increase the authorization. But as I said before, we will be opportunistic. I think under Ron's leadership, we did a very good job in the quarter buying at the right time. So we are there, but we will be opportunistic.

With respect to M&A, I think anytime you have the interest rate environment you have here now, you have to guard against frothy valuations. And we've done that, I think quite successfully. As I've said before, we have been shut out in a number of deals, but then after waiting for a long period of time, the four deals we've done this year as we said, are I think fairly priced. They represent right down the bowling alley in terms of what we do today. The synergy numbers are impressive and the return to our shareholders will be equally impressive.

So, those kind of deals, if they become available, will be in the game. If they're not and they're richly priced representing some type of asset bubble, then we're happy to lose.

Marcus Kearney - - *Analyst*

Excellent. Thank you very much.

Operator

(Operator Instructions)

Chris Harris, Wells Fargo.

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

Thanks, guys. Real quick question on the acquisitions you guys have done. I believe your guidance is excluding potential upside from any revenue synergies that might occur. So as you guys are integrating these transactions, any thoughts on how material those could be and how quickly you might be able to achieve those?

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

I would say this -- we're very comfortable increasing the number to the $0.40. We believe there is an upside bias to that number for both expense and revenue. But we're not in a position to commit to that now. It's early days with all of them, but we feel optimistically inclined.

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

All right. Just a quick question then unrelated to the quarter. Bob, would really like to get your thoughts on blockchain technology in general, and how big of an impact do you think this might have on the industry? And perhaps a little bit about the NASDAQ plans to capitalize on that.

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

So, I'll give you two views. One, on the optimistic side is the blockchain will change everything with respect to post-trade across a wide variety of asset classes across the globe in time; that will happen.

On the other side, you have to recognize that blockchain by itself, and I tie back to what Larry Ellison said back in the dot-com days, is that's a feature; it's not company. So blockchain is another method of storing data, and it needs to be integrated into solutions that fit within the construct of the ecosystem we live in.

And what we announced at the Technology of the Future conference, which I referenced in my prepared remarks, is a pure recognition of that. So we're putting the blockchain as a key part, a central part of the Nasdaq Financial Framework, but by itself, it doesn't do anything.

So I think the integration, the deep integration of blockchain into core technologies is fundamental, and we're on that mission. So we see this as a major opportunity. But we think just a -- somebody out there trying to sell blockchain technology is not going to get that far. It has to get integrated into what happens today.

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

Thanks.

Operator

Alex Kramm, UBS.

Alex Kramm - *UBS - Analyst*

Good morning, everyone. Just maybe more broadly speaking on the non-transaction side, wondering if you could give us an update around the selling environment and how that's changed so far this year given all the challenges on the financial services industry. And in particular, as you look forward, how Brexit, in your opinion could change that in some of your businesses. Thanks.

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

Sure. Hey, Alex, so if we start with the market tech business, I think that we continue to find a very receptive audience among our clients as well as new potential clients. We did sign on a new client in the first quarter. We've renewed several contracts. We've upgraded several of our contracts.

That's why we had such good order intake in the second quarter, and we continue to see very good opportunity in our core market tech business in addition to the SMARTS trade system, which frankly, has a tremendous traction, is an award-winning solution, and is -- we continue to see a very, very robust pipeline of sales opportunities there. I don't think Brexit is going to have an impact on either of those businesses in any meaningful way.

And then if we turn it over to corporate solutions, corporate solutions continues to have a variety, frankly, of sales environments in it, because it's a wide range of products. But in terms of the need, for instance, board portal technology and more intelligent PR distribution and intelligent solutions, that continues to be an area of very good growth for us.

In terms of the investor relations products, I would say it depends on the sector. So we continue to see weakness in the energy sector, but strength in some of the biotech and the technology sectors. And again, Brexit doesn't really have any impact on that business either. I hope that answers your question.

Alex Kramm - *UBS - Analyst*

Sure, thank you. And then secondly, I think this is for Bob, I know cash equities isn't really that important of a business for you anymore in terms of revenue contribution. But it seems like there is some growing support for -- within the SEC's for some access pilots or access-fee pilots. So just wondering what you think about that initiative.

It seems like it would actually impact a lot of a market if they really include all the different symbols. And if some of the folks we've talked to think this could actually be a pretty big negative for volumes down the line. So any thoughts, any discussions you've had from year-end would be helpful.

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

Yes. The first thing I want to say is we are in love with the cash equities business. It's the core of what we do and we pay a lot of attention to it. So as we get larger and do different things, it's important to recognize we will not do that unless we execute quite successfully in all our chosen businesses, and cash equities is really first among equals.

So, with respect to what's happening, as you recollect, we attempted of our own accord, to do a basic access-fee pilot, and we picked certain stocks and we thought this was a good thing to do. Because when you think about the passage of Reg NMS and the $0.30 was picked as the limit for access fee, that may or may not have been the right number at that point in time, but it cannot be the right number a decade later. And we have a belief that number is too high, so we're in full support of the commission moving forward with that.

On the other side of the equation, we believe in rebates. We believe in the maker/taker model. But we also do not believe that the maker fee should be so high that it creates activity in and of itself. It should be there to provide incentive for somebody to reveal their hand first. So to the extent we shrink the access fee and the maker rebate declines, I think that could be a good thing for the market.

So first and foremost, we believe that high-quality markets are good for NASDAQ and good for us, and we fully support what hopefully will happen in a faster pace with the commission. And we certainly think that, as I said before, if the market quality is better, then an organization like NASDAQ is better served

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Alex Kramm - *UBS - Analyst*

Fair enough. Thank you.

Operator

Michael Carrier, Bank of America.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Thanks, guys. First question, when we look at the updated expense guidance, just wanted to maybe get a comparable update in terms of the acquisitions that closed and some of them that closed during 2Q. Maybe what the full run rate can be on the revenue side?

And then looking out, I know you guys aren't providing 2017 expense guidance. But when I think about that, I think it's about $50 million of synergies that remained I think you said over the next 18 months. When we look at that midpoint of the expense range for this year, if we kept expenses flat going into next year, that would be a 4% growth rate if you realize the synergies. So just wanted to get some guidance of what the core expense run rate should be going forward, maybe pre those synergies?

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

It's just a little too early to go. We want to see exactly what the synergies are going to look like going into 2017, but I think it's much too early to try to look out into 2017 at this point in time and to give any form of guidance. We gave fairly good guidance at this point. Take into consideration the synergies that we know to date, which is roughly $10 million on an annualized basis, and gave a midpoint of roughly 1240. But to go beyond that would be quite difficult to go that way. And we will give 2017 guidance, as we always have, in the fourth quarter.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Got it. And then just anything on the revenue side, meaning any of the deals that closed intra-quarter? Just a full run rate or an update there?

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

As you saw at investor day, I gave guidance on these deals as how they performed in 2015. And it's too early to talk about ISE at this point, but in terms of the other three deals, they 're operating on the same pace as their 2015 revenue guidance that I gave earlier. So, it's not too much difference than what you saw there.

Michael Carrier - *BofA Merrill Lynch - Analyst*

Okay. Got it. Thanks a lot.

Operator

Chris Allen, Buckingham Research.

Chris Allen - *Buckingham Research - Analyst*

Morning, everyone. I just want to shift back a little bit to corporate solutions. I think, Bob, you said in your remarks that the stage is set for better organic growth in the back half of this year. I'm just wondering what would be the catalyst for that. Adena talked about some of the tailwinds, headwinds within the business and maybe any color on subscription sales that you guys have seen so far this year and what the outlook is moving forward?

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

I would say this, that the second quarter was a very strong and that we're serving two masters, in that there was a massive ramp-up in the transition to the new platform. And as Adena referenced, we're on schedule and I think will soon we'll be ahead of schedule with that. And that's obviously a consumer resource and will cost money.

But at the same time, we saw a noticeable increase in our win rate versus the competitors, and that will obviously translate down the line to the growth. So, the core drivers of the business look strong, and as we convert folks to the new platform, we're certainly in an ideal position to start cross-selling. Adena, do you want to add to that?

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

I think more broadly, Chris, we've been talking about the different dynamics within corporate solutions all year. And I think one of the areas that we have had some headwinds is in the NMS sales, but that's been, I think offset by continued growth in the board portal platform. Definitely very strong revenues coming in on Marketwired as well as continued roll out and definitely a pickup in sales within the IR Insight platform.

So, there are lots of different dynamics there, but I think that as Bob said, we are moving towards a situation where we feel that we can hit revenue growth and we will continue to track that very carefully.

Chris Allen - *Buckingham Research - Analyst*

Okay. Thanks. And then just one quick question on market data. In the press release you called out year-over-year growth benefited from audit collections. I know last year was a low quarter for the [collections audit]. I'm just wondering any color in terms of magnitude this quarter, maybe how it compared sequentially with the first quarter.

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

Yes. So, this quarter we had $5 million in audit revenues. Last quarter, the first quarter, there was $4 million and the second quarter of last year was $2 million great.

Chris Allen - *Buckingham Research - Analyst*

Great. Thanks a lot.

Operator

Dan Fannon with Jefferies.

Dan Fannon - *Jefferies LLC - Analyst*

Good morning, thanks. Within the tech solutions with the margin improvement quarter over quarter or year over year, as well, can you talk about the contribution from Marketwired and Boardvantage to that versus the core trend potentially improving longer term?

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

Yes, I think that the improvement in the margin was driven by core, the core business and primarily in market technology, not by Marketwired or Boardvantage. Right now is that we're having to absorb them; there some one-time costs associated with bringing them in.

And so they're not -- as we achieve synergies, they will become a significant contributer and they should help us accelerate some of the path to that 20%. But right now, they're not contributing to an increase in the margin right now.

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Dan Fannon - *Jefferies LLC - Analyst*

Great. And then just a follow-up on the synergies. The outlook, the pace of synergy realization over the next 18 months. Do we think that's more of a 2017 event, or should we see that progress through this year?

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

Well within corporate solutions, I would say that it's what we -- it's more of a 2017 event because we will be consolidating platforms and providing our clients new benefits. And we will be managing that through 2017.

Dan Fannon - *Jefferies LLC - Analyst*

And then also on the market services side, just with the synergies of the $40 million that's been targeted?

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

Yes, there's one bump and that's when you actually move away from the platform. So we haven't locked in on that date yet. You'll see a decline, increase in the synergies and then an acceleration as the platform is migrated.

Dan Fannon - *Jefferies LLC - Analyst*

Great. Thank you.

Operator

(Operator Instructions)

Patrick O'Shaughnessy, Raymond James.

Patrick O'Shaughnessy - *Raymond James & Associates, Inc. - Analyst*

Good morning. Curious if you have any updated thoughts on what you might do with those US stock exchange medallions you're getting from ISE?

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

What I would say for today's call is the intention on the options side is to keep all the medallions active, so we will be managing the six medallions. It's important -- I expected the question, but I will handle it here. With our options, we're definitely managing this as a portfolio.

Tom will answer to Hans-Ole, Adena, and myself with respect to the overall market share, and we expect to pull different levers at different times between the different exchanges with the different market share results. So we're happy with the fact that we are 40% market share this week and been in and around 40% certainly since the acquisition. I think the customer uptake has been very strong.

To get your question with respect to equities and the licenses we have there, we certainly have more than enough. We do not have an answer at this point. But we know they're assets and we want to come up with what I would say imaginative plans on how to monetize those assets over time.

Patrick O'Shaughnessy - *Raymond James & Associates, Inc. - Analyst*

Thank you.

Operator

Kyle Voigt, KBW.

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

Hi, good morning. Thanks for taking my question. I just want to touch on the [ISE do] again. When you announced the deal, you said there would be some sharing of synergies with clients. I wanted to revisit this. Could you provide some more clarity around your plans here and when or if we should expect to see some impact on average capture rates in the options businesses as you realize your cost synergies?

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

I would say that under Tom's leadership, we've already done some clever things with respect to pricing. It's not that noticeable on the outside but certainly appreciated by the customers. So, without those moves, I don't think we would have maintained the share we have.

And as I said before, we can be quite clever about where we allocate our pricing power. So we have the six licenses and so we go into this recognizing we can and we have some Big Data analysis behind this to help us serve two masters. Where we can more competitively price where it matters to our customers and probably gain some extra capture where the customers are relatively pricing sensitive.

So we feel comfortable that we are able to keep share and maintain capture. But as I said before, if we need to, in order to make customers happy, we will sacrifice capture. That has not been necessary as of this point in time.

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

Thank you.

Operator

Andrew Bond, RBC Capital Markets.

Andrew Bond - *RBC Capital Markets - Analyst*

Thanks, good morning. More a question on ISE. [MYAS and BATS] both plan to enter the complex segment; they've both been disruptors in the one market share in their respective option segments in which they currently operate. So do you guys believe there is going to be any additional pricing pressure or this will be a more difficult market for these exchanges to disrupt? And additionally what are the competitive advantage of your complex book platform that will be more (inaudible) key to maintaining market share versus MYAX and BATS?

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

The first thing I want to do is put this in context. So we identify ourselves as a financial technology Company, and as such, we recognize that whatever advantage you have today will disappear if you do not continue to innovate and move the product forward.

We have a massive lead in complex order flow. And as we gained an appreciation of the ISE technology as the owner, we see that they are doing things that others are not right now with complex orders. But if that's all we do, then we will lose share.

So certainly, we have no intention to staying where we are. We intend to continue to innovate within the complex order flow. I'm happy to report under Tom's leadership, we're engaged with the customers and there's a path we can take in complex order flow that a lot of our competitors are not in a position to think about or leverage based upon the fact they don't have the presence we have in that area. So we will continue to innovate in that space and I think do incredibly well.

Operator

Brian Bedell, Deutsche Bank.

Brian Bedell - *Deutsche Bank - Analyst*

Great. Thanks very much. Bob, if you could circle back on NFX You mentioned earlier in the presentation, if you could talk a little bit about the pricing that you've been increasing on which contracts. And what the EPS drag from NFX is now and where you expect that to go in [2016].

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

All right. I would say this. In terms of the way to think about our pricing philosophy, if you see us have double-digit market share for a reasonable period of time, then we'll look to take a pricing move. So the two contracts we have had double-digit market share.

And it's important to note that we took a pricing move, and I said it was meaningful. In that in May and June, from that pricing move, we received $500,000 in gross revenue and our market share continued to increase. We're still a fraction of what the competitors charge, so there's room to grow there. And as our share continues to grow and we deliver more value to our customers, we're going to see that. So as different assets get to that double-digit threshold, then we will think about that.

It's also important to note that we're adding new instruments to the platform and I think we're very excited about that. There was a bit of publicity on that just the other day. So that's going to continue to go forward.

With respect to the drag on the second quarter on that, it was $0.02 for the quarter, so one of the best investments we could make. So clearly, as we're more instruments at double-digit market share and we're charging then that burn rate will decline.

Brian Bedell - *Deutsche Bank - Analyst*

Thank you very much.

Operator

Warren Gardiner, Evercore.

Warren Gardiner - *Evercore ISI - Analyst*

Great. Thank you, guys. So, with the new IR Insight rollout moving along and the addition of Marketwired and Boardvantage, I was just wondering if you guys could give us some thoughts on how to think about price compare in that business going forward? And then also the same question for market tech as well?

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

Sure. Well, corporate solutions operates within a very competitive landscape, so we are very, very mindful of our clients and what they expect in terms of the service versus the price and the value that we provide to them. We did make some small pricing changes at the beginning of the year, as we have the right to do under our contracts. But it's not something where we can make wholesale pricing moves and not expect clients reactions. So we manage that very, very carefully, and again, it is a highly competitive space.

Within market tech, we have long-standing relationships with our clients and long-dated contracts with our clients. And so, again, it's not something where we can make changes in pricing year over year or anything like that because it's just a very different kind of business. Most contracts are five years in length and some of them are three, some are seven, some are longer. But it's definitely, those things are all negotiated upfront, and so it's not really a situation where we can make pricing moves like we can in other subscription products.

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

And I would add with the new product suite coming out with, we're reimagining the support requirements in using technology to deliver a better customer experience with less manual support from NASDAQ. And that represents a good lever for us with respect to margin improvement.

Warren Gardiner - *Evercore ISI - Analyst*

Great. Thank you.

Operator

Robert Rutschow, CLSA

Robert Rutschow - *CLSA - Analyst*

Good morning. I think most of my questions have been asked. Just one quick one. On Boardvantage, I think that had a high growth rate, maybe double digits. Are you continuing to see that growth rate in that segment? And was that the main driver of the increase in corporate solutions revenue in the quarter? Thanks.

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

Well, I think that the impact, the full-quarter impact of Marketwired plus the closing of the Boardvantage deal during the quarter were the two drivers of the increase in revenue for corporate solutions. But yes, the board portal space and just the collaboration space in general tends to be a hybrid area for us.

I would say that it probably is high single digits, low double digits is the type of growth rate we've seen in those products and what Boardvantage and Directors Desk have been experiencing. So we definitely continue to see companies moving away from paper toward electronic solutions and realizing how critical it is to have a very, very highly secured solution because of the sensitivity of the information that they're sharing either across the management team or with the Board. And that is continuing to drive great demand, both in private companies and public companies for these types of services.

Robert Rutschow - *CLSA - Analyst*

Thank you.

Operator

Michael Carrier, Bank of America Merrill Lynch.

Unidentified Participant - - *Analyst*

Good morning, guys. This is Samir, Mike had to jump off. Just a quick follow-up on the index business. What drove the licensees lower, given that the markets and the average markets are at highs?

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

Well, actually, so, it depends on the index values. So primarily, the index values did have a decline in the quarter and based on things like Brexit and other things that drove different indexes down. And so, it's an average across a lot of different index products, a lot of different ETFs. So I think that it's definitely a beta much more and there really wasn't a lot of alpha headwinds. It's really just a beta headwind with regard to market valuation.

Unidentified Participant - - *Analyst*

Thank you.

Operator

Thank you. And that does conclude today's Q&A portion of the call. I'd like to turn it back over to Bob Greifeld for any closing remarks.

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

Thank you. Well, while I appreciate everyone joining us with this call today, outstanding quarter for NASDAQ. And as I referenced in my prepared remarks, most importantly, on a forward-looking basis we are doing the right things to continue this progress. As a final note, Ron, again, you've been with me every day since I got here. It's been much appreciated and you'll be much missed. Thank you. Let's give him a round of applause.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This does concludes today's program. You may all disconnect. Everyone, have a great day.