Nasdaq, Inc. (NDAQ)

Updated October 19th, 2022, by Patrick Neuwirth

Key Metrics

Current Price:	$56	**5 Year CAGR Estimate:**	7.2%	**Market Cap:**	$27 B
Fair Value Price:	$50	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date[1]:**	12/02/22
% Fair Value:	111%	**5 Year Valuation Multiple Estimate:**	-2.1%	**Dividend Payment Date[1]:**	12/16/22
Dividend Yield:	1.4%	**5 Year Price Target**	$74	**Years Of Dividend Growth:**	10
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Rating:**	Hold

Overview & Current Events

Nasdaq, Inc. operates as a technology company that serves capital markets and other industries worldwide. Nasdaq is primarily known for its equity exchange with 4,269 companies listed securities on The Nasdaq Stock Market, but in addition to its market-services business, the company sells and distributes market data as well as offers Nasdaq-branded indexes to asset managers and investors through its information-services segment. Nasdaq's corporate-services business offers listing services and related investor relations products to publicly traded companies. Non-trading revenues accounted for 74% of net revenues. Nasdaq is a $27 billion company and has about 6,000 employees.

Nasdaq's management has defined a 2025 strategy[2] which includes three key metrics for success. Those include Solutions segment organic revenue growth between 6% and 9% per year for the next 3 to 5 years, a serviceable addressable market of ~$20 billion, and increasing SaaS revenues as a percentage of ARR to 40% to 50%. This requires investments into a more scalable platform and creating a leading position in Anti Financial Crime, ESG, Index and investments analytics.

On October 19th, 2022, Nasdaq released Q3 2022 results for the period ending September 30th, 2022. For the quarter the company reported net revenues of $890 million which represents 6% growth compared to the same quarter in 2021. Annualized Recurring Revenue (ARR) increased 8% compared to the second quarter of 2021, annualized SaaS revenues increased 13% which represented 35% of ARR (this is a key metric for Nasdaq's management). The Q3 2022 growth was driven by the Solutions segments which grew by 8% to $584 million. Non-GAAP earnings per diluted share for the quarter was $0.68, a 15% increase from the prior year's $0.59.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$0.83	$0.87	$0.96	$1.13	$1.23	$1.35	$1.61	$1.67	$2.06	$2.52	***$2.65***	***$3.89***
DPS	$0.13	$0.17	$0.19	$0.30	$0.40	$0.49	$0.57	$0.62	$0.65	$0.70	***$0.80***	***$1.29***
Shares[3]	497	508	506	493	500	502	496	495	495	500	***485***	***480***

Nasdaq has grown earnings by 13.1% per year over the past nine years and 14.1% over the past five years. We expect earnings to increase by 8% per year for the next five years.

The company has been able to increase its yearly dividend payout for 10 consecutive years. Over the last five years, the average annual dividend growth rate is almost 10%. In April 2022, the company increased its quarterly dividend by 11.1% from $0.18 to $0.20 per share. This is taking the 3-for-1 stock split of August 29th, 2022 into account.

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[1] Estimated date

[2] Investor presentation, April 2022

[3] In millions.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Avg. P/E	9.6	12.5	14.0	15.3	17.8	17.8	18.0	19.0	19.2	23.2	***21.1***	***19.0***
Avg. Yld.	1.9%	1.6%	1.4%	1.7%	1.9%	2.0%	1.9%	1.9%	1.6%	1.2%	***1.4%***	***1.7%***

During the past decade shares of Nasdaq have traded with an average price-to-earnings ratio of 16.6 times earnings and today, it stands at 21.1. We are using 19 times earnings as a fair value baseline, implying the potential for a valuation headwind. The company's dividend yield is currently 1.4% which is below the average yield over the past decade of 1.7%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	16%	20%	20%	27%	33%	36%	35%	37%	32%	28%	***30%***	***33%***

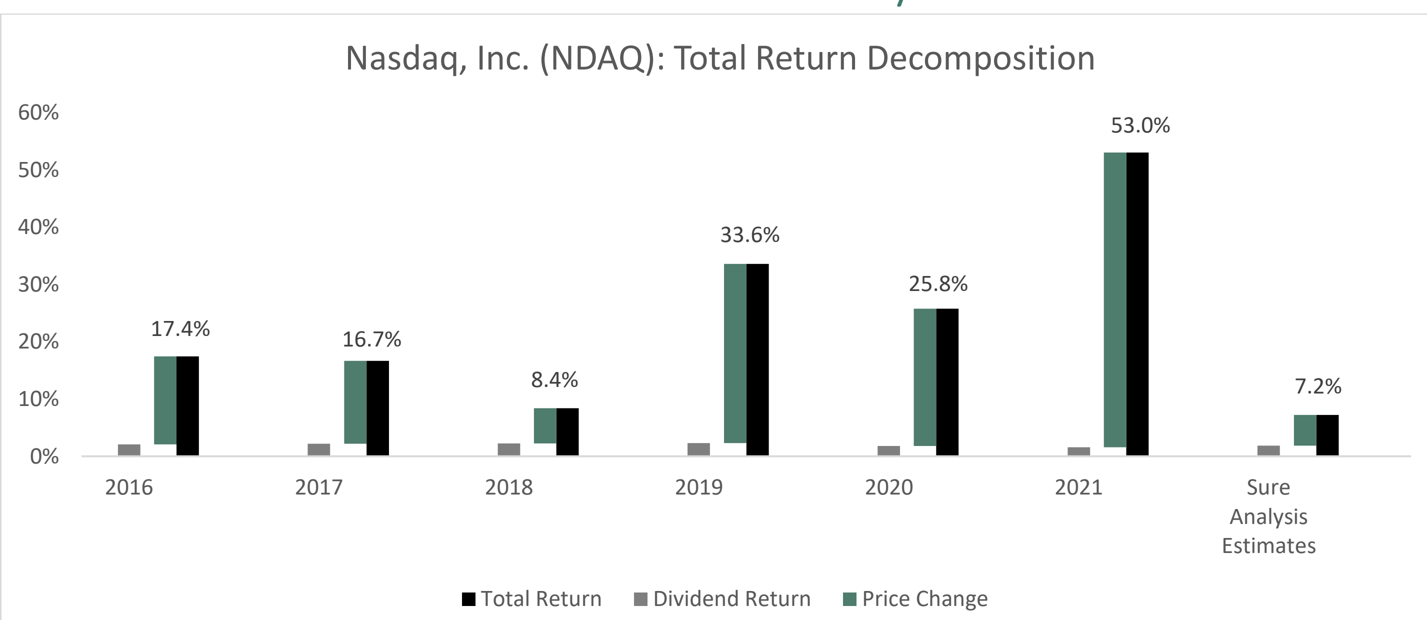
During the past five years, the company's dividend payout ratio has averaged around 34%. Nasdaq's dividend is comfortably covered by earnings. Given the expected earnings growth, there is room for the dividend to continue to grow at least at the same pace and keep the payout ratio around the same levels which is safe.

Nasdaq is a global technology company providing data, analytics, software, and services, including the popular Nasdaq Stock Market. To keep its leading position, Nasdaq needs to execute its 2025 vision correctly and invest in innovation to accelerate the modernization of its businesses, as well as better supporting its customer base. The company and its management are certainly capable of doing so and have sufficient funding options to do the investments required for this ambition.

Final Thoughts & Recommendation

Nasdaq is a technology stock in the financial services sector with a strong earnings-per-share track record and a modest dividend yield of 1.4%. We estimate total return potential of 7.2% per year for the next five years based on an 8% earnings-per-share growth, starting yield, and a valuation headwind. The shares earn a hold rating.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	3,120	3,211	3,500	3,403	3,704	3,948	4,277	4,258	5,625	5,886
Gross Profit	1,220	1,356	1,479	1,500	1,611	1,741	1,814	1,828	2,117	2,482
Gross Margin	39.1%	42.2%	42.3%	44.1%	43.5%	44.1%	42.4%	42.9%	37.6%	42.2%
SG&A Exp.	378	471	507	460	488	518	555	552	600	645
D&A Exp.	104	122	137	138	170	188	210	190	202	278
Operating Profit	738	763	835	902	953	1,035	1,049	1,086	1,315	1,559
Op. Margin	23.7%	23.8%	23.9%	26.5%	25.7%	26.2%	24.5%	25.5%	23.4%	26.5%
Net Profit	352	385	414	428	106	729	458	774	933	1,187
Net Margin	11.3%	12.0%	11.8%	12.6%	2.9%	18.5%	10.7%	18.2%	16.6%	20.2%
Free Cash Flow	501	459	492	594	642	765	917	836	1,064	920
Income Tax	199	216	181	203	27	143	606	245	279	347

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	9,132	12,577	12,071	11,861	14,150	15,354	15,700	13,924	17,979	20,115
Cash & Equivalents	497	398	427	301	403	377	545	332	2,745	393
Acc. Receivable	333	393	389	316	429	356	384	422	566	588
Goodwill & Int.	6,985	8,572	7,615	7,354	8,121	9,054	8,663	8,615	9,105	11,246
Total Liabilities	3,923	6,393	6,277	6,252	8,720	9,474	10,251	8,285	11,543	13,710
Accounts Payable	172	228	189	158	175	177	198	148	175	185
Long-Term Debt	1,976	2,634	2,297	2,364	3,603	4,207	3,831	3,387	5,541	5,830
Total Equity	5,208	6,184	5,793	5,609	5,430	5,880	5,449	5,639	6,433	6,395
LTD/E Ratio	0.38	0.43	0.40	0.42	0.66	0.72	0.70	0.60	0.86	0.91

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	3.0%	3.5%	3.4%	3.6%	0.8%	4.9%	2.9%	5.2%	5.8%	6.2%
Return on Equity	6.9%	6.8%	6.9%	7.5%	1.9%	12.9%	8.1%	14.0%	15.5%	18.5%
ROIC	4.9%	4.8%	4.9%	5.3%	1.2%	7.6%	4.7%	8.5%	8.9%	9.8%
Shares Out.	166	169	169	164	167	167	165	165	165	167
Revenue/Share	18.08	18.75	20.23	19.87	21.94	23.28	25.51	25.50	33.70	34.96
FCF/Share	2.90	2.68	2.84	3.47	3.80	4.51	5.47	5.01	6.37	5.46

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.