THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

NDAQ - Q3 2017 Nasdaq Inc Earnings Call

EVENT DATE/TIME: OCTOBER 25, 2017 / 12:00PM GMT

OVERVIEW:

Co. reported 3Q17 total net revenue of $607m and non-GAAP net income attributable to Co. of $181m or $1.06 per diluted share.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Adena T. Friedman *Nasdaq, Inc. - CEO, President & Director*

Edward Ditmire *Nasdaq, Inc. - VP of IR*

Michael Steven Ptasznik *Nasdaq, Inc. - Executive VP of Corporate Strategy & CFO*

CONFERENCE CALL PARTICIPANTS

Alex Kramm *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst of Exchanges, Ebrokers*

Alexander Blostein *Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst*

Benjamin Joseph Herbert *Citigroup Inc, Research Division - VP & Analyst*

Brian Bertram Bedell *Deutsche Bank AG, Research Division - Director in Equity Research*

Christopher Meo Harris *Wells Fargo Securities, LLC, Research Division - Director and Senior Equity Research Analyst*

Daniel Thomas Fannon *Jefferies LLC, Research Division - Senior Equity Research Analyst*

Jeremy Edward Campbell *Barclays PLC, Research Division - Lead Analyst*

Kyle Kenneth Voigt *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

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

Richard Henry Repetto *Sandler O'Neill + Partners, L.P., Research Division - Principal, Equity Research*

Sameer Murukutla *BofA Merrill Lynch, Research Division - Research Analyst*

Vincent Hung *Autonomous Research LLP - Partner*

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Nasdaq Third Quarter 2017 Results Conference Call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to turn the conference over to Ed Ditmire, Vice President, Investor Relations. Sir, you may begin.

Edward Ditmire - *Nasdaq, Inc. - VP of IR*

Good morning, everyone, and thank you for joining us today to discuss Nasdaq's third quarter 2017 financial results.

On the line are Adena Friedman, our CEO; Michael Ptasznik, our CFO; Ed Knight, our General Counsel; and other members of the management team.

After prepared remarks, we'll open up to Q&A.

The press release and presentation are on our website. We intend to use the website as a means of disclosing material, nonpublic 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 Adena.

Adena T. Friedman - *Nasdaq, Inc. - CEO, President & Director*

Thank you, Ed. Good morning, and thank you for joining us. I'm pleased to report Nasdaq's strong third quarter 2017 results today. I also want to discuss how we are deliberately evolving the strategic direction of the company, the actions we've taken to drive that forward to date and address the regulatory environment and some of the developments there.

The results we delivered during the quarter are indicative of our strong focus and alignment with our clients' needs. In particular, we increased our non-GAAP diluted EPS by 12% year-over-year excluding the $0.04 benefit from changes in the share-based tax accounting. We generated total net revenue of $607 million and non-GAAP operating income of $290 million, up 4% and 8%, respectively, year-over-year.

We continue to execute well to achieve our 2017 priorities including improving our competitive position across our businesses, integrating the 2016 acquisitions and delivering on their full promise and commercializing our expertise in emerging technologies and bringing new solutions to the marketplace.

Growth was especially strong in the recurring and subscription side of the business where we generated 76% of our third quarter revenue. First, Information Services saw strong performance with $150 million in revenues for the quarter with especially strong growth in index licensing and services revenue, up 21% year-over-year, a testament to the unique position -- positioning that we've established in the index space with over 40% of our licensed AUM and smart beta products.

Market Technology generated revenues of $77 million, an increase of 5% year-over-year, and year-to-date, the segment has generated $215 million in revenue, up 8% year-over-year.

We exited Q3 on a strong footing in terms of backlog, new client wins and fast business trends, all of which we expect to drive future growth. We're positioning ourselves to further that growth momentum through our investments in Sybenetix and internal development initiatives, most notably our investment in the Nasdaq Financial Framework, our next-generation market infrastructure platform.

Under our Market Services segment, trade management services saw strong growth from some of our newer products, in particular, third-party connectivity, which contributed to a 9% increase in the quarter year-over-year. The trading side of the business is performing well despite historic lows and volatility and muted industry volumes due to market share gains in the 3 largest trading revenue categories: U.S. options, U.S. equities and Nordic equities. This is a visible example of the progress against one of our 2017 execution priorities to improve our competitive position.

With another one of our 2017 priorities, our acquisition integration efforts, I'm very pleased to say that we have completed the technology integration of the ISE options exchanges onto the INET technology. The team did an outstanding job with the complex integration, which they completed on time and which enabled us to execute on all of our synergy expectations.

There are areas of our business that continue to show slower growth than we would like, in particular, our Corporate Solutions and our Listing Services businesses.

In terms of Listings, we are seeing some encouraging business level operating trends. In the Nordics, despite a seasonally slow third quarter, our new listings are still on their way to a record in 2017 with 72 new listing so far this year, up 24% year-to-date. In the U.S., we have had 87 IPOs during the first 9 months of 2017, up 32% year-to-date over the comparable period last year, and we increased our IPO win rate to 77% during the third quarter, improving our year-to-date win rate to 60%.

In 2018, we'll enter the final phase of the 2015 pricing changes in Listings when U.S. corporate listing customers who haven't already opted in will transition to the bundled annual and listing of additional shares fees, which will bring a moderate revenue benefit next year.

In Corporate Solutions where year-over-year comparisons are flat, we're taking actions to better position ourselves strategically and leverage the parts of those businesses that play to Nasdaq's strengths and expertise going forward. I'll provide more detail around this later in my remarks.

Moving on from the financial metrics, I want to spend a few minutes discussing the long-term opportunities we're focused on that will continue to position this firm for growth in the quarters and years to come. As I mentioned in our September call, in terms of our strategic planning, we've been examining the key trends that will drive change and evolution in our industry with a focus on how we can best serve our clients as they adapt and respond to technology and other industry advancements in the coming years. We intend to use our capital, talent and other resources to align ourselves with the need of our clients both today and tomorrow.

The specific long-term trends that we believe will impact our business are: first, the emergence of a marketplace economy with two-sided market mechanisms proliferating far beyond financial markets. Over the years, using our market infrastructure technology, we have worked with third-party clients, looking to create auction mechanisms or continuous markets to allow for price discovery for assets outside the scope of the financial markets today. We believe that this trend, to give consumers the power to negotiate price for goods that are easily transferred, coupled with advanced digital payment options, will continue to expand. Essentially, the Nasdaq Financial Framework offers our existing clients, but also the emerging marketplace economy a modern architecture that embraces the latest advancements in technology.

Second is the role of the investment banks as critical pillars of the financial system. Our view is that many of the global banks have emerged from the aftermath of the credit crisis in a position of strength. And as they have reoriented their own capital allocation priorities, they have developed a different attitude towards technology partnerships where they're willing to find strategic partners who have specialized capabilities in areas that they don't view -- where they don't view the technology as a key competitive differentiator and that can be delivered in a less expensive way than their own internal IT organizations can manage. They can then focus their internal IT efforts on those areas that provide them specific competitive advantages. An example of that shift has been our Ocean initiative where we seek to serve as the technology partner for banks in managing their internal trading venues.

In the third quarter, we have won a second Ocean mandate, in this case to power a Tier 1 global bank's foreign exchange trading platform. We continue to have active and encouraging discussions with other banks, seeking ways to -- seeking to find ways to optimize their internal operations with our market infrastructure technology.

The third major trend that every industry is facing is the explosion of data coupled with the advancement of machine intelligence. We have built a successful data franchise of global distribution, and today, we have new tools to dissect our data, intersect it with outside information and deliver deeper and more meaningful insights to our clients. Our Analytics Hub is a good example. We're using machine intelligence to provide investors with robust signals that can help them navigate the financial markets and execute their investment and trading strategies more efficiently. Similarly, for our corporate clients, we've just launched IR 360, which mines data in a new way to deliver insights to IR officers and other executives on their investor base and how they're interacting with them. And then our SMARTS surveillance business, we're creating evermore intelligent alert and other capabilities that enable more sophisticated means to oversee the activities across the markets globally.

The last major trend is the shifting environment in investment management. We're seeing shifts that go far beyond the active to passive dynamic. For example, the increasing importance of investing in private companies, the growth in quantitative strategies and overall the increased competition that all asset managers are facing despite a rising tide in evermore investable assets entering the markets in the coming years. We believe that this trend, coupled with the third trend of the data explosion, creates interesting opportunities to serve the asset management industry with increasingly sophisticated data and analytics with the aim to empower them to compete more effectively in a shifting environment.

We are excited that we have just closed on our acquisition of eVestment. The special fit between eVestment and Nasdaq creates the opportunities to build our role as a key differentiated analytics partner in the investment community. Our interactions with the investment team in the weeks since announcing the acquisition through to closing this week has only raised our conviction on this fantastic opportunity.

These initiatives and others that we have in our Information Services segment pipeline will enable us to continue our sharp focus on delivering more valuable information and intelligence to our clients.

So as we completed our strategic review, we assessed our current assets and capabilities and mapped them against our areas of strategic focus. In that process, we identified where we have assets that are ready to be applied against our focus areas, where we need to invest to improve our position and where we may have assets that are not core to our future. Due to that evaluation, we have placed our Public Relations Solutions and Digital Media Services business under strategic review. As we mentioned in our release, when we have material news related to those businesses to share with you, we will do so.

By retaining and focusing on our IR intelligence and board and leadership portals, we will be able to continue to serve as a key partner to our corporate clients as they navigate the global capital markets, and we will maintain the capabilities that are strategic to them in their governance and IR relationship.

The strategic pivot we've just begun to implement has us better oriented today to pursue our objectives, but we're also working to institutionalize some of the process and learning that occurred during this long-term strategic analysis. By regularly reviewing, assessing and making adjustments when needed to maximize our long-term effectiveness and making this as much a part of the culture as our operating and efficiency discipline, we'll put ourselves in a great position to ensure that we've maximized how we can deliver for our clients and our shareholders alike.

Lastly, I want to spend a few minutes on the regulatory environment. Nasdaq's mission is to use ingenuity, integrity and insights to deliver markets that promote economic growth. As part of that mission, we want to ensure that the U.S. capital markets are the best and most robust that they can be. In that end -- to that end, in May, we released a blueprint for revitalizing the U.S. [ticket] with recommendations that we see as essential for the U.S. [routine] as preeminence in the global capital market. As part of our initiative, we're seeking to gain key -- support from key stakeholders to increase the appeal of public markets for innovative and growing companies.

We have been encouraged by several actions taken by the new administration in recent months. Specifically, soon after Chairman Clayton was sworn in, he extended the ability to submit confidential filings to all companies, not just those with less than $1 billion in annual revenue. We also applaud Congress for introducing several pieces of legislation in the last several weeks focused on the public equity markets including ability to strengthen proxy advisory firm oversight and all of which aim to create more appealing public company experience while preserving critical investor protection. And on October 6, the U.S. Treasury published its report recommending various reforms to how to improve the capital markets -- how the capital markets can support economic growth with considerable focus on the U.S. equity markets. There are areas in the report where the U.S. Treasury is in complete alignment with the recommendations in Nasdaq's blueprint including reducing corporate disclosure obligations that were principally politically motivated, working to establish more meaningful proxy access thresholds, reviewing oversight of proxy advisory firms and reforming shareholder litigation. Also in line with Nasdaq's recommendation was Treasury's desire to give less liquid issuers more choice on the market structure of their listing exchange. Notably, they support revisions to unlisted trading privileges to allow a single exchange to trade a company's stock in order to reconsolidate the company's liquidity, with the aim to improve market quality and lower their equity cost of capital.

There are other -- also other market structure recommendations such as increased ATS and payment [portal] disclosures, which have and continue to have -- which have had and continue to have Nasdaq support.

In other areas, such as the Treasury's recommendations around data's role in satisfying those execution requirements and their view on SEC review standards for market data fee filings, we view Treasury's recommendations and priorities as completely consistent with current law and precedents.

Treasury also recommends the SEC consider a potential for a multiple consolidator system for the provision of SIP fees. Nasdaq has not opposed such a system as long as it can be demonstrated that it will not impose new burdens on broker-dealers or the exchanges to create such a system and that a reasonable articulation supporting the economic benefits to investors is made before embarking on the creation of a multiple consolidator role.

In Michael's remarks, he'll discuss some incremental disclosures we've made this quarter to bring more transparency to this special area of focus for our investors.

I would like to summarize my comments by saying that we are very pleased with our continued solid performance across our business, which has been propelled by our focus and achievement against our 2017 execution priorities. We're excited about the strategic direction that we're embarking on, which should enable us to focus on the evolving future needs of our clients. And we are pleased to see our U.S. regulatory agenda playing out with initial regulatory and political actions aimed to create a better and more inviting public environment for innovative growth companies.

And with that, I'll turn it over to Michael to review the financial details.

Michael Steven Ptasznik - *Nasdaq, Inc. - Executive VP of Corporate Strategy & CFO*

Thank you, Adena, and good morning, everyone.

My commentary will primarily focus on our non-GAAP results and all comparisons will be to the prior year period unless otherwise noted. Reconciliations of U.S. 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.

Starting with the third quarter revenue performance, as shown on Page 3 of the presentation and organic growth on Pages 4 and 16, the 4% or $22 million increase in reported record net revenue of $607 million consisted of organic growth of $15 million with 3% organic growth in the nontrading segments and 1% organic growth in Market Services and a $7 million favorable impact from changes in foreign exchange rates.

We'll look now at the highlights within each of the reporting segments. I will start with Information Services, which, as reflected on Pages 5 and 16, saw a $13 million or 9% increase in revenues, consisting of $12 million or 9% organic growth.

Index licensing and services revenues were up 21% in the third quarter of 2017, primarily due to higher assets under management and exchange-traded products linked to Nasdaq indexes with AUM reaching a record $154 billion as of September 30, 2017.

Market Technology revenue, as shown on Pages 6 and 16, increased $4 million or 5% with organic growth totaling $2 million or 3%. Organic growth totaled 8% on a year-to-date basis, which we point out because organic growth in Market Technology tends to fluctuate quarter-to-quarter more than other segments. The period-end backlog finished at $805 million, a record high, and an increase of 9% from the prior year quarter. The operating income margin for Market Technology was 21%, down 5 percentage points from 26% in the prior year period, reflecting the impact of investments we are making to upgrade our technology for the next-generation Nasdaq Financial Framework and to enhance and grow our surveillance offering.

Turning to Corporate Services on Pages 7 and 16, revenues declined $1 million or 1%. While listings activity in the Nordic region is robust, revenue growth in the Nordics was offset by lower U.S. listings revenue from the runoff of listing of additional shares or LAS fees due to activity generated in past years.

For the Corporate Solutions segment, growth was flat in the quarter. Reflecting the progress we've achieved in our synergy targets, the Corporate Services operating margin was 28% versus 26% in the prior year period.

Market Services net revenues on Pages 8 and 16 saw a $6 million or 3% increase, equally split between organic growth and the positive impact from changes in foreign exchange. Market Services operating income margin totaled 54%, unchanged versus the prior year period.

Turning to Pages 9 and 16 to review expenses. Non-GAAP operating expenses were unchanged at $317 million with a $4 million organic expense decrease offset by $4 million unfavorable impact from the changes in foreign exchange rates.

Turning to Slide 10. Our revised 2017 non-GAAP operating expense guidance is $1.275 billion to $1.29 billion versus $1.26 billion to $1.29 billion previously. The updated guidance largely reflects the closing of our acquisitions of eVestment earlier this week and Sybenetix toward the end of the third quarter.

As is our typical practice, we'll establish 2018 expense guidance when we report the 4Q '17 results in late January. But understanding that many of you will be working now to incorporate our acquisitions, particularly eVestment into your model, please keep the following in mind: For considering our 2018 expense run rate in addition to the organic growth rate of core expenses, which in recent full year periods has been 3%, we believe our 2018 expense run rate should also reflect a 6% nonorganic increase over 2017 due to the full year impact of the late 2017 acquisitions of eVestment and Sybenetix. The 6% nonorganic increase reflects growth in the expense bases of the acquisitions to support the continued organic growth as well as upfront integration costs including certain retention and incentive programs.

Non-GAAP operating income increased 8% in the third quarter 2017 and the non-GAAP operating margin totaled 48%, an increase from 46% in the prior year period.

Net interest expense was $32 million in the third quarter of 2017, a decrease of $4 million versus the prior year period, primarily due to a lower average debt balance since the 2016 acquisitions.

The non-GAAP effective tax rate for the third quarter of 2017 was 31%, in the middle of the 30% to 32% range we provided during the last quarterly call. We continue to expect 2017 non-GAAP effective tax rate to be in the range of 30% to 32%.

Non-GAAP net income attributable to Nasdaq for the third quarter of 2017 was $181 million or $1.06 per diluted share compared to $154 million or $0.91 per diluted share in the prior year period. The adoption of accounting standard, ASU 2016-09, added $0.04 to our 3Q '17 results.

Turning to capital. As shown on Slide 11, debt increased $190 million -- $991 million versus 2Q '17 primarily due to issuing a $500 million floating rate note during the period in preparation for the closing of the eVestment transaction and a $48 million increase in eurobonds due to changes in FX rates. This increase was partially offset as we used a portion of the proceeds to temporarily pay down $340 million of commercial paper.

This resulted in our debt-to-EBITDA ratio ending the period at 3.1x versus 3.0x at the second -- at the end of the second quarter of 2017. With the eVestment acquisition, we expect our leverage ratio to temporarily increase and then we plan to delever to a mid-2x leverage ratio by mid-2019.

Share repurchases in the third quarter totaled $80 million, bringing year-to-date repurchases to $175 million. Together with dividend payments, we have returned $355 million to shareholders through the 9 months of 2017, representing 66% of our non-GAAP net income in the period.

Looking forward, while in the near term our actions in part will reflect our commitment to deleverage towards our mid-2019 commitment to reach a mid-2s gross debt-to-EBITDA ratio, we are looking to optimize the returns to shareholders through continued investment in organic growth initiatives, carefully considered M&A, continuing to grow the dividend as earnings and cash flow increase and buybacks that principally offset the impact of share issuance.

Before I turn the call back over to Adena, we wanted to take this opportunity to provide you with some additional color on our Information Services business and have added some additional disclosure on Slides 12 and 13. First, I'd like to provide some detail on the implications of the eVestment acquisition we closed this week and how its revenues will be reflected in our financials, and later, the temporary impacts of the purchase accounting adjustments for deferred revenue balances.

On Page 12 of the quarterly presentation, we reiterate that eVestment revenues have grown an average of 12% per year over the period from 2013 through the first half of 2017. 2Q '17 trailing 12-month revenues were $81 million. Due to a write-down of deferred revenue under purchase accounting, revenues related to eVestment are expected to be reduced by approximately $34 million for the 12-month period following the acquisition or $9 million in 4Q '17, $11 million in 1Q '18, $8 million in 2Q, $5 million in Q3 and $1 million in 4Q '18. Revenues in 2019 and beyond will not be affected by the purchase accounting adjustments of deferred revenues.

Secondly, I'd like to follow up Adena's comments on the regulatory environment and in order to help answer requests from the investment community for more detail on the data business, we've included a slide on Page 13 of the earnings deck.

We hope this helps investors understand some of the nuance in our Global Information Services business, in particular understanding the portion of our business that comes from the U.S. equity proprietary debt and shared tape data product groups. This revenue consists of a number of different products that are grouped and for the categories of pro display and nondisplay fees, nonpro fees, license fees as well as the revenues from Tapes A, B and C.

Interestingly, as we have continued to diversify and expand our overall Global Information Services business with particular focus on our index business and nonequities data, over the past 12 months, our U.S. equities debt fees represent approximately 4% of our overall revenue.

As the chart demonstrates, today, most of our Information Services revenues and particularly our growth opportunities are focused on products and services that are not related to U.S. equity market structure. And this will be further diversified and enhanced with the inclusion of eVestment starting this quarter.

Thank you for your time, and I'd now like to turn it back to the operator for Q&A.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Rich Repetto with Sandler O'Neill.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal, Equity Research*

And I guess, the question is going to be since you just went through Slide 13, Michael, but on the Market Data, I think it was a combination of Treasury report as well as a new appointment at the SEC. Could you comment, Adena, on any views you might have? Obviously, the positions of the individual that's appointed the head of trading and markets were very much, I would say, pro dealer. Could you comment on what you'd expect or -- because I think the investment community is adding these 2 together, I guess, and what you expect from a person taking that position?

Adena T. Friedman - *Nasdaq, Inc. - CEO, President & Director*

Well, I would say very definitively we've had a long and productive working relationship with the SEC, and we expect to continue to. I think that since Chairman Clayton came into the role earlier this year, we feel that we have been very aligned in some key areas of concern that we've had around the capital markets and making sure that we have a great balance of investor protection with robust and exciting U.S. public capital markets, and we would expect that we will continue to be able to work towards those goals with the Chairman as well as with the staff, and we look forward to working with Brett in his new role in Trading and Markets. I think, in general, as we mentioned with the Treasury report as well as with the changes there, we feel that the Treasury report is pretty clear in articulating issues around market data that are still very consistent with the SEC and their guidance around the use of SIP data for best set as well as the reasonable and fair standard that they applied to our Market Data filings today. So we don't really see any change that comes from the Treasury report recommendations or from the activities that we'll have at the SEC in that regard.

Richard Henry Repetto - *Sandler O'Neill + Partners, L.P., Research Division - Principal, Equity Research*

That's helpful, Adena. And I guess, the last question is more open, but you did outline sort of what you looked in the key areas of growth for strategic planning whether it be the marketplace economy, investment banks, et cetera. But I guess the question is have you been able -- does this -- as you assess the whole strategic pivot, does this incrementally add to the growth rate? Like what do you expect, if you could quantify that in any way, it'd be helpful.

Adena T. Friedman - *Nasdaq, Inc. - CEO, President & Director*

Sure. Well, I think that we have been and will continue to be very focused on total shareholder return, and we have as our goal to deliver double-digit total shareholder return and we will continue to have that as our goal and our target. I think that as we -- we are pretty early on in the strategy, but as we execute against that strategy, we will continue to evaluate and assess the growth rate, the long-term growth targets that we provide to you, and if there are opportunities to increase this, we certainly will. We also want to make sure that we provide you insight into the investments we are making, in particularly in R&D, that are focused on our strategy so that we can provide you an update and measures for you to be able to understand how we're progressing against those investment areas. And so we will continue to provide -- and probably provide a little bit more disclosures in the future just around our R&D activities. But generally speaking, our goal is to make sure that we can deliver on that double-digit total shareholder return and we hope to be able to do that with increased growth over time as we execute against our strategy.

Operator

Our next question is from Chris Harris with Wells Fargo.

Christopher Meo Harris - *Wells Fargo Securities, LLC, Research Division - Director and Senior Equity Research Analyst*

Two questions on market structure. One, wondering if you guys are supportive of a pilot to examine the impact of reduced access fees? And then related to that, if maker/taker went away, what do you think would be the impact on your business?

Adena T. Friedman - *Nasdaq, Inc. - CEO, President & Director*

So in terms of the access fee pilot, what we've discussed and we've said in public testimony is that we are willing to work with the SEC on an access fee pilot. We tried to implement -- tried to do it without the SEC involvement a couple of years ago, but the other exchanges didn't choose to participate in that, so it's hard to get any sort of meaningful results out of it. But I would say that we are willing to work certainly with the SEC to implement an access fee pilot. We have expressed some real concern around the access fees as this applies to smaller company stock and the need for makers to have proper incentives to post close and be involved in those stocks. So we are pretty adamant about our concern around that, and so how they construct the pilot, how long they run it, how many stocks are involved, which stocks are involved are going to be very important to working with them on that. But I do believe that there -- it seems like it's something that they are interested in trying to do and so we will work with them if that's their decision. In terms of the impact of elimination of access fees, this has been a part of our markets. It's part of -- it's integrated and integral to Reg NMS and so to the extent that there is a review of Reg NMS and all of the market structure components there, that, certainly looking at access fees, could be a part of that over the long run. But elimination of access fees, we don't really try to predict the impact of that. I think that it is an integral part of our market structure today and it likely will continue to be with the pilot giving us some information as to the impact of that over time.

Operator

Our next question comes from Jeremy Campbell with Barclays.

Jeremy Edward Campbell - *Barclays PLC, Research Division - Lead Analyst*

Just a quick question on your Info Services. Thanks for the incremental disclosure here, I think it's going to be useful for folks. But just thinking big picture in your entire Info Services complex, but maybe especially in the proprietary U.S. equity stuff that's under the scrutiny here, how much of the top line growth in the past was from price increases? And with the focus here on this kind of vertical, what do you think the outlook is for price increases going forward on this business?

Adena T. Friedman - *Nasdaq, Inc. - CEO, President & Director*

So overall, within our Information Services business, we have given some clarity on that in the past where we say somewhere in the range of 1 to 2 percentage points of growth can come from price increases in general. That does not pertain necessarily specifically to each speed. So we have, as you can tell, a very diversified business. We work very closely with our clients and with industry groups to understand how we're adding value to this product, how the use of these products are changing and therefore we factor that in to any pricing decisions we make. But that's a general comment across all of Information Services and we don't -- and there are many times when we don't make increases in any particular product. We do it based on maybe changes and enhancements, improvements we made to the products and changes in usage that would warrant a change in price and that's generally how we run the business.

Jeremy Edward Campbell - *Barclays PLC, Research Division - Lead Analyst*

But would it be fair to say that maybe the -- instead of wiping out this revenue stream like some people were kind of doing, maybe it's more about the growth rate of this might be slowing versus where it had been in the past given the kind of the U.S. Treasury proposal?

Adena T. Friedman - *Nasdaq, Inc. - CEO, President & Director*

I would say -- as we said before, the U.S. Treasury proposal, in our opinion, is completely consistent with current practice and it's consistent with the current requirements that the SEC places on broker-dealers for their best execution obligations. So we continue to support a mid-single-digits growth rate for the Global Information Services business in the years to come and that includes that the complement of everything we do there and our focus areas on growth in terms of our data analytics, the growth in our index business, our focus on the buy-side and the investment community in addition to all the current products that we support that supports the broker-dealer community.

Operator

Our next question comes from Dan Fannon with Jefferies.

Daniel Thomas Fannon - *Jefferies LLC, Research Division - Senior Equity Research Analyst*

Just a follow-up on the expenses and kind of the outlook for next year. So just want to clarify you talked about kind of a 3% core Nasdaq expense growth rate but -- that jibes -- or compares to roughly 1% I think you guys are tracking at this year. And then just the 6% number I think you talked about on the combined businesses of eVestment and Sybenetix. That's what you're going to be spending on just the kind of core growth of that business going forward versus any synergies or anything that might be coming out?

Michael Steven Ptasznik - *Nasdaq, Inc. - Executive VP of Corporate Strategy & CFO*

Yes. So first of all, with the 3% relative to the 1%, 3% represents the historical growth rate we've typically seen for synergies. And so this year, the 1% on a year-to-date basis really does take into account the synergies we have for the 4 acquisitions and the flow-through of that into this year. So 3% would be a normal organic growth rate over the last few years before the synergies. With respect to the 6%, that 6% does reflect the combination of the Sybenetix and eVestment, the year-over-year approximate increase due to those acquisitions and what that impact would be. It includes the run rate, the growth that we expect behind those businesses as we said we believe that eVestment will continue to attract growth as well as Sybenetix obviously. And then additional, as we disclosed here, there are some upfront integration costs from incentive, retention compensation and some other things that we're going to be spending. When we did the call -- when we announced the eVestment deal, we did talk about how there will be some synergies in the business that will be offset by some additional expenses that we'll be spending. And so some of that is with respect to timing. Some of the upfront costs obviously have to occur now and then the synergies will come in a future period.

Operator

Our next question comes from Michael Carrier with Bank of America.

Sameer Murukutla - *BofA Merrill Lynch, Research Division - Research Analyst*

Adena, Michael, this is Sameer Murukutla on for Michael Carrier. I guess I wanted to focus more on the Market Technology segment and I think you highlighted the growth in the SaaS effort. Can you just give us more detail on this initiative? What kind of growth rate you're seeing? Who you primarily are competing with? And I guess is this really being reflected in the backlog order intake as, I guess, it didn't move up as much as I expected on a quarter-to-quarter basis?

Adena T. Friedman - *Nasdaq, Inc. - CEO, President & Director*

So you're asking the question across the full segment? I just want to make sure.

Sameer Murukutla - *BofA Merrill Lynch, Research Division - Research Analyst*

Yes.

Adena T. Friedman - *Nasdaq, Inc. - CEO, President & Director*

Okay. Yes, so I think that in terms of the overall growth of Market Tech where we continue to see very strong demand is frankly in existing clients taking on more of our services and some new clients signing up to take our services, particularly in the post-trade area, in the surveillance and risk management areas as well as some new trading clients that we've been able to attract this year and then I would say that in our surveillance area. So the SMARTS surveillance business continues to be a high grower for us. And that -- and all of those pieces are included in order intake, in the order backlog. I think that in the third quarter, it's -- you do have some vacation periods. It does slow down some of our clients from making decisions, but we have had some really good wins this quarter, most notably having a Tier 1 bank choose us to develop their foreign exchange trading system in addition to some post-trade wins with our clients. So we are continuing to see very strong demand dynamics within the business. We do believe that the order backlog does reflect the potential for us to continue to show good organic growth in that business, and we continue to have great dialogue with our clients as we roll out the Nasdaq Financial Framework and other new services that will expand what we can do for them.

Michael Steven Ptasznik - *Nasdaq, Inc. - Executive VP of Corporate Strategy & CFO*

And as we mentioned on other calls is as more of business continues to convert towards more of a SaaS recurring business, the order backlog number is maybe not as representative as it has been in the past. So we will be revisiting those measures in the future as we try provide you with some additional color or some alternative measures to help see how the growth of the business is coming along.

Operator

Our next question comes from Brian Bedell with Deutsche Bank.

Brian Bertram Bedell - *Deutsche Bank AG, Research Division - Director in Equity Research*

Adena, maybe just a little bit more on the regulatory side of things. I mean, you mentioned obviously the sort of relook at Reg NMS. I guess, reasonably, in your view, how long would it take, and it's always tough to obviously gauge regulators, but how long do you think it would take to run through the pilot programs and the process of gauging how effective the pilots were and actually changing any kind of rules on market structure? And also same thing on the Market Data set, and I know you know obviously Tom Wittman and Chris Concannon and Tom Farley put a letter together with some concerns on the access fee pilots. So just trying to gauge sort of a timing of how long that whole process might take and to what extent that would impact your business in the much more distant future than the near term?

Adena T. Friedman - *Nasdaq, Inc. - CEO, President & Director*

Sure. Well, our regulatory process, particularly SEC rule-making is a robust process. It goes through an extensive comment period. It goes through a lot of debates and discussions. And so I can't predict how long that type of process could take, but in prior experiences, it's been a multi-year experience to try to look at significant changes in market structure at the SEC. And I -- what I'm pleased about is that it does go through a robust process. They have to go through an economic review. They have to seek comments from the industry. They allow this -- the industry to have a deep dialogue with the staff and with the commission. And they do this in a way that's very overt and open to public comment as well, so that everyone kind of understands the process as it unfolds. But it is a long process and for good reason. These are important decisions to make. They are important to our U.S. capital markets and to the way that the system works. They are integrated and integral, so they -- it's hard to take one part of a system and change it without having consequences to other parts of the system. So it is really important for them to be very careful in considering them. And I think they are. So my experience has been, over many years of working with the SEC, is that they do take these things very seriously and they go through a very robust process. So I can't predict specific times, but it generally is a multi-year process.

Brian Bertram Bedell - *Deutsche Bank AG, Research Division - Director in Equity Research*

That's great color. And then maybe on -- back on the strategic review for the Public Relations and Digital Media. Obviously, you'll announce something when you have something. But if we were to sort of assume that business is sold, given the revenue and operating income metrics, $195 million of revenue, I think it's about 13% of or so of your nearly $1.5 billion of nontrading revenue, can you give us a sense of the growth rate of that piece of business? And assuming that slower growth, that would sort of automatically enhance your nontrading revenue? And then as you pivot towards investments in some of the faster-growth segments, could we see some upside to that mid-single-digit overall nontrading revenue long-term growth profile?

Adena T. Friedman - *Nasdaq, Inc. - CEO, President & Director*

So the PR and the Digital Media businesses have been slow to no growers essentially. They're not growth areas for us. I think that part of that is because we focus very much on the IR component of those businesses because, of course, that's our inclination, using those services to interact with the capital markets and manage the public company components of working in the capital markets. I mean, I think that we are finding that we have a better opportunity to use our skills, our expertise and our strategic relationships with our clients to really -- more on the intelligence side, the IR Insight, the advisory business, the board and leadership businesses. So -- and those are higher-growth businesses as a general matter than the PR and Digital Media businesses. In terms of the pivot, I mean, the goal of our strategic review is to find ways to elevate our growths rate to push ourselves towards the higher-growth businesses. And as we execute against that strategy, as I said earlier, we really do -- we will be looking to assess our growth rates and provide you updated guidance or at least our long-term, medium-term outlook, I think that's what we call it, in terms of our revenue growth rates as we execute against that strategy. And to the extent that we have completed the strategic review there and we've got eVestment inside our organization, those will be the types of things that would drive us to reassess our growth rates.

Brian Bertram Bedell - *Deutsche Bank AG, Research Division - Director in Equity Research*

Okay. So it's more like a next year type of potential change in that?

Adena T. Friedman - *Nasdaq, Inc. - CEO, President & Director*

We are in the middle of execution today, so we'll see how things go.

Operator

Our next question comes from Alex Blostein with Goldman Sachs.

Alexander Blostein - *Goldman Sachs Group Inc., Research Division - Lead Capital Markets Analyst*

Great. Just a couple of follow-ups around the operating leverage discussion, one kind of a specific question and one broader picture question. I guess, on the specific side, looking at Market Tech, this obviously remains a faster-growth area for Nasdaq. It sounds like you guys are going through some investments, but the margins are kind of in the 20%, 21% range for the last couple of quarters. How long do you guys think the elevated investments then will persist? And how should we think about incremental margin expansion opportunities in that particular segment? And then I guess, the follow-up on a broader side of things, just, Michael, taking your comments around expectations for expenses for next year, obviously too early to be too explicit. But can Nasdaq deliver operating leverage next year, assuming kind of mid-single-digit kind of revenue growth rates that you've targeted in the past?

Adena T. Friedman - *Nasdaq, Inc. - CEO, President & Director*

Well, with regard to Market Tech, I think that we are making some very good investments in the technology. And as a technology business, you always have -- you have to have some investment dollars. I think, yes, that we have to have some concentrated investment in -- with the Nasdaq Financial Framework and some real investment in the SMARTS surveillance business and some of the new capabilities we're bringing there. And so I think that, that will continue to have an impact on the expenses of the business in the near term, as you mentioned. I think the question is can we deliver that into a more scalable business going forward, and that is most certainly the goal. As Michael mentioned, we are moving more of our revenue towards the SaaS model, recurring license model and trying to make it so that we also have a more hosted solutions over time. And we do believe that also will give us more operating leverage in that business. So we do definitely have opportunities with these investments we're making to create operating leverage in that business. But it will always be an area that we invest in because there's always new technologies we can apply and provide to our clients. And so I think that's a general answer to Market Tech. You want to answer the expense question, Michael?

Michael Steven Ptasznik - *Nasdaq, Inc. - Executive VP of Corporate Strategy & CFO*

Yes, I would say with respect to the -- with respect to whether we're going to have margin expansion or not, obviously that is the goal over the medium to long term of the organization, is to continue to, as Adena said, drive to double-digit TSR, continue to grow the business, grow the top line at a faster rate than the expenses, which should drive that margin expansion. So on a year-over-year basis, we don't give margin goals on a year-over-year basis, but that is the goal that we would have as an organization over the medium term. There's a number of things coming into next year like the eVestment, we talked about the impact of eVestment or the revenue impact of the acquisition there, what ends up having strategic review. So there's a lot of moving pieces with respect to next year and we don't provide that short-term guidance. But really, the focus is driving TSR and margin expansion over the medium to long term.

Operator

Our next question comes from Vincent Hung with Autonomous.

Vincent Hung - *Autonomous Research LLP - Partner*

Just a question on the SIP. So the SIP has seen numerous improvements in recent years, I guess mostly in latency. Given these improvements, did you ever see any impact on your proprietary data business? I'm just trying to understand whether meaningful improvements in the SIP here could lead customers to find that proprietary data is redundant.

Adena T. Friedman - *Nasdaq, Inc. - CEO, President & Director*

So the answer is no, we have not seen any impact on the demand for our proprietary data in relation to the improvements we've made in the SIP and the latency there. I think that people see them as serving two different needs. So the SIP obviously as a basis for best execution. It's the foundation for interacting with the capital markets. The Depth fees allow for companies to have a lot of different strategies that they undertake to interact with those capital markets or to give clients just a bit a bigger and better picture of the market. We generate revenues, as you can see, in our Depth fees across a whole range of clients, so you've got nonprofessional users that get a chance to see Depth through their online brokers, you've got professional institutional users that are using it to really get a sense of where the market is and where it's going. And then you also have the professional traders who are using it to actually interact and execute on strategies in the market. So we have not seen any sort of shift in the demand characteristics as a result of improving the SIP latency.

Operator

Our next question comes from Ben Herbert with Citi.

Benjamin Joseph Herbert - *Citigroup Inc, Research Division - VP & Analyst*

Just on eVestment, could you provide a little more color on the competitive position and then how that might change or improve kind of plugged into your platform?

Adena T. Friedman - *Nasdaq, Inc. - CEO, President & Director*

Well, I would say that eVestment today has a very strong competitive position. Bjorn Sibbern has been -- who leads our Information Services business has been working very closely on the integration planning with the eVestment team. And we continue to be just incredibly impressed with the business, with the client, the interactions they have with their clients, with the level of distribution and penetration they have in the industry and kind of the unique nature of how they bring the information together and the analytics they can provide to every aspect of the investment management community. So they have a very strong competitive position. I would say that they are relatively unique in how the data that they've been collecting, the penetration in the market and the analytics that they generate and we would expect that our synergies with them are that we can probably bring even more advanced analytics to the data that they have. We have our Mutual Fund Quotation Service and we would expect to integrate that and potentially get more penetration of that service to their clients. We have the potential to create new indices and other data products that are more generally available based on the public data that they collect. And so we just see great opportunity and synergy between the businesses to increase distribution, but also to deepen our relationships with the investment management community.

Benjamin Joseph Herbert - *Citigroup Inc, Research Division - VP & Analyst*

And then maybe just a quick follow-up on Sybenetix. That $805 million backlog, would that include any backlog related to Sybenetix?

Adena T. Friedman - *Nasdaq, Inc. - CEO, President & Director*

I would say -- what we've been saying is that the revenue -- Sybenetix is a small company today. It definitely will include the backlog from Sybenetix going forward, but it doesn't suddenly create a significant change in backlog upon the closure of the deal.

Operator

Our next question comes from Kyle Voigt with KBW.

Kyle Kenneth Voigt - *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

Just first question on the strong growth in Trade Management services. I know you cited in the slide deck an increase in customer demand for third-party connectivity in colo. We don't have any underlying stats on how the number of subscribers or users of these products has changed over time. But I'm wondering if you could help us kind of bridge the gap between the higher customer demand that you're seeing for connectivity with, on the other side, kind of continued consolidation of market makers and high-frequency traders and that consolidating trends you need to accelerate more recently.

Adena T. Friedman - *Nasdaq, Inc. - CEO, President & Director*

Well, we are -- I mean, generally speaking, the client base in our TMS business has increased over time. We continue to see new participants actually coming in and asking for connectivity in addition to obviously the acquisitions create kind of a countertrend to that in some regards, but frankly we continue to have active sign-up and new clients coming in to support the TMS business. And it's basically in terms of also the growth that we've gotten from Chi-X and the ISE sections also have contributed to growth in that business as well.

Kyle Kenneth Voigt - *Keefe, Bruyette, & Woods, Inc., Research Division - Associate*

Okay. And then just as a follow-up on a prior question on the Treasury report and specifically the question related to the SIP, one of the recommendations was to move to a consolidator model to provide alternatives to the SIP. And I know it's a relatively broad recommendation and not many details were kind of in the recommendation, but just trying to understand that you would envision that model playing out? And how it could potentially impact the SIP data revenue pool for the industry as well as maybe some other products that already -- that you had already that compete with the SIP such as NASDAQ Basic.

Adena T. Friedman - *Nasdaq, Inc. - CEO, President & Director*

So first of all, the multiple consolidator concept is not a new concept at all. It's been a concept that the industry has been discussing for a while. The UTP committee has had that as an open-agenda item for a while. So it's not a new concept. I think that it -- as I said before, we have not objected to the concept of a multiple consolidator model so long as it does not place undue burden on the broker-dealer community or the exchanges to create it. I think that it is -- just so everyone understands, the SIP itself is its own technology contract. We -- the MAR Market Technology business has a contract with the UTP committee to provide the SIP technology. In terms of having potentially a competing SIP, that's fine. I mean, that -- the question is who else is going to pay for that? But that is not related to the Market Data revenue itself. The Market Data revenue itself and the pricing of that is done by the UTP committee and that would continue to be the case even if there are multiple SIPs distributing that data. So I don't believe that would have an impact on the revenue, it would just create an alternative to the SIP. And I think that there have been discussions on multiple consolidators or just a distributed SIP model and we've had, I think, productive dialogue on both of those ideas over time.

Operator

Our next question comes from Alex Kramm with UBS.

Alex Kramm - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst of Exchanges, Ebrokers*

Just -- I guess, coming back to that regulation topic that we've been debating all day here. I think the bigger reason why we're having this debate is obviously because broker-dealers, customers are facing a hard time in seeing nontransaction costs in U.S. equities go higher and that doesn't, obviously, not just include Market Data, but also includes things like connectivity, colocation, port fees, et cetera. So to Kyle's question just now on the trade management fees, which is, I think, roughly $300 million per year trailing, how much of that is U.S. equities? Is there -- what's the pricing dynamics there? And are you getting a lot of like questions or headwinds from clients on that part of the business? Because I think it's included in, I think, the bigger debate, right, so maybe some more color?

Adena T. Friedman - *Nasdaq, Inc. - CEO, President & Director*

Yes. I mean, our overall TMS business includes a lot of -- also is a very diversified business and it supports a lot of different asset classes. It also supports our Trade Reporting clearly and other things, so it is a diversified revenue stream itself. We do not separately disclose the components of that revenue stream. I think that generally speaking, the demand for overall just cabinet support, colo, things like that have been steady over time for the U.S. equities markets. We've had growth in that business coming from some of the acquisitions, as I mentioned, with Chi-X and ISE and earlier with eSpeed. So I think that we're growing by having more things -- more exchanges, more asset classes traded through our data center in addition to having connectivity for equities and I would say a variety of different connectivity choices that we offer to all of our clients across asset classes. So we -- we're not getting -- I would say this, Alex, it's a very steady business. We work very productively with our clients. We continue to have actually new customers signing up for certain services in connectivity into equities in addition to other asset classes and it's a been a nice, strong part of our business.

Alex Kramm - *UBS Investment Bank, Research Division - Executive Director and Equity Research Analyst of Exchanges, Ebrokers*

That's fair enough. And then just very quickly for Michael, did you point out audit fees this quarter? I think in the press release you said it was a driver, but what's the number this quarter?

Michael Steven Ptasznik - *Nasdaq, Inc. - Executive VP of Corporate Strategy & CFO*

It's $8 million in this quarter. It was $4 million the same quarter a year ago.

Operator

Our next question comes from Patrick O'Shaughnessy with Raymond James.

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

I was hoping you could provide an update on the U.S. listings competitive environment, I think both in terms of battling against the established competitor for some of the biggest IPOs and then battling against the new entrants in the spaces offering to waive 5 years of listing fees.

Adena T. Friedman - *Nasdaq, Inc. - CEO, President & Director*

Well, first of all, we are really pleased with how the Listings have developed as we've gone through the year. As we mentioned, in the third quarter, we had a 77% win rate. We've had some great companies come and access the public markets over the quarter. And we continue to see a really nice strong pipeline of listings as we go through the rest of the year. So it does feel like the overall environment is picking up and we're -- I think we're doing well competitively in winning IPOs and having some great companies choose to have Nasdaq as their home. And so we're pretty pleased with how the dynamics are developing there. In terms of just overall competition, we compete vigorously for every IPO. We compete vigorously on getting companies to switch from our competitors to Nasdaq and we continue to find success in that area as well. And we respect all competitors and new entrants. We want to make sure that our clients, our existing clients and any new clients fully understand the breadth and depth of Nasdaq as a listing exchange partner and the value proposition we offer, and I think we do believe that we have the best value proposition out there. So we're -- we feel very good about how things are developing right now.

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

Got it. And then for my follow-up, you touched on this a little bit in your prepared remarks, but can you expand on some of the ways that you might be able to leverage to your eVestment client relationships to provide more services or products to active asset managers?

Adena T. Friedman - *Nasdaq, Inc. - CEO, President & Director*

Well, the -- I would say the core of their business today are asset -- active asset managers in addition to alternatives, and over time, some -- more focused on the passive investors as well. But we do want to make sure that we look at how we can leverage the relationships they have there, the platform, the delivery mechanism to bring them more analytics that would help them manage their investment strategies in addition to be -- making them competitive with each other. So I think that we are just at the beginning of our planning stages around that, but that certainly is part of the strategy.

Operator

(Operator Instructions) And I'm currently showing no further questions at this time. I'd like to turn the call back over to Adena Friedman for closing remarks.

Adena T. Friedman - *Nasdaq, Inc. - CEO, President & Director*

Great. Well, thank you very much. I think that as we look at all of the advancements in the third -- the strong third quarter results, we feel that they have been achieved by advancing our core franchises' competitive position, coupled with driving growth in our technology, information and analytics businesses. The strategy that we articulated today will continue to gain momentum as we integrate the acquisitions, invest in our future and conclude our strategic reviews. And our refined capital allocation and continued focus on double-digit shareholder return will help ensure that our team and our shareholders remain aligned in the quarters and years ahead. So with that, thank you very much and I look forward to speaking with you all soon.

Operator

Ladies and gentlemen, this concludes today's conference. Thanks for your participation. Have a wonderful day.
