THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

NDAQ - Q2 2013 The NASDAQ OMX Group, Inc. Earnings Conference Call

EVENT DATE/TIME: JULY 24, 2013 / 12:00PM GMT

OVERVIEW:

Co. reported 2Q13 net revenues of $451m and non-GAAP net income of $105m or $0.62 per diluted share.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Ed Ditmire *NASDAQ OMX Group Inc - VP, IR*

Bob Greifeld *NASDAQ OMX Group Inc - CEO*

Lee Shavel *NASDAQ OMX Group Inc - CFO*

CONFERENCE CALL PARTICIPANTS

Rich Repetto *Sandler O'Neill - Analyst*

Howard Chen *Credit Suisse - Analyst*

Patrick O'Shaughnessy *Raymond James - Analyst*

Chris Harris *Wells Fargo Securities - Analyst*

Alex Blostein *Goldman Sachs - Analyst*

Brian Bedell *ISI Group - Analyst*

Michael Carrier *BofA Merrill Lynch - Analyst*

Niamh Alexander *Keefe, Bruyette & Woods - Analyst*

PRESENTATION

Operator

Good day ladies and gentlemen. Welcome to the NASDAQ OMX second quarter 2013 results conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will be given at that time.

(Operator Instructions)

As a reminder, today's conference call is being recorded. I'd now like to turn the conference over to your host, Mr. Ed Ditmire, Vice President, Investor Relations. Please go ahead.

Ed Ditmire - ***NASDAQ OMX Group Inc - VP, IR***

Good morning, everyone. And thanks for joining us today to discuss NASDAQ OMX's second quarter 2013 earnings results. On the line are Bob Greifeld, our CEO; Lee Shavel, CFO; Ed Knight, General Counsel; and other members of the Management team. After our 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, 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. I now will turn the call over to Bob.

Bob Greifeld - ***NASDAQ OMX Group Inc - CEO***

Thank you, Ed. Good morning, everyone. Thank you for joining us today on this call to discuss NASDAQ OMX's second quarter 2013 earnings results. We are pleased to announce another solid quarter. Second quarter 2013 net revenues reached a record $451 million, up 8% from the prior year's non-GAAP result and all four business segments showed organic revenue growth. Our non-transaction based revenues remained near record levels at 72%, emphasizing our sound and unique business model amongst our exchange peers.

Our business is performing well and the results we delivered indicate significant progress and strong execution by this team. And in fact, this is for me, one of the most exciting times during my tenure here at this organization. We ended the quarter with several significant achievements which I believe are indicative of the positive growth and evolution of this franchise. We completed two transformative acquisitions. Thomson Reuters IR, PR and Multimedia businesses and eSpeed, a leading platform for the trading of on-the-run benchmark US Treasuries. As you all know, we strive to have accretion or demand accretion within 12 months of closing of the transaction.

I'm happy to announce that in the one month we owned the Thomson Reuters assets from May to June, we had, for the first time, accretion in that very first month. In addition, I'm happy to announce that eSpeed, we're moving the date of accretion up from 12 months to the end of this year. In addition, during the quarter, we launched NLX, a London-based futures market with a unique value proposition to compete with two major incumbents across a full spectrum of short- and long-term interest rate derivatives as well as other promising new initiatives like the WorkSpace, Virtual Data Room and the German Power initiative.

In addition, during the quarter, we raised EUR600 million with very attractive rates and terms. We had our investment grade ratings affirmed and on top of all of this, as I mentioned earlier, we delivered record revenues, again all this coming in the last three months. So I would say this is truly a remarkable progress and we are now positioning this Company to capture significant opportunities ahead and deliver attractive returns for our shareholders.

When we look at the drivers of our success, it really boils down to two key ingredients -- clear strategy and quality execution. Our strategy is clear. We lever our technology, our expertise and resources to identify and develop business opportunities. We strive to achieve a number one or number two position through unrelenting client and competitive focus. We optimize profitability and capital returns through intense operational focus. Our strategic objective is to continue to become a deeply imbedded provider of products and services to the global market community of investors, issuers, traders, exchanges and regulators; delivering growth, stable cash flows and attractive returns to our investors. Whether it's NLX, eSpeed or Corporate Solutions, we are working to expand our offerings in ways that are important and meaningful to our clients.

Moving to the quality execution aspects of our culture, we have many great examples how we're executing this strategy with our recent acquisitions and I will discuss some of that in greater detail later on. As a result of our continued focus and execution, NASDAQ OMX is predominantly either the number one or number two player in the businesses we operate, business segments today that represent 96% of our total revenue mix. So for 96% of our revenue, we are either number one or number two in those chosen businesses. I would again emphasize that the Management team here has done a tremendous job in executing our strategy and the results you see is that we're competing very well in all of these businesses.

In addition to expanding our set of solutions, we provide our strong and competitive standing, which I have already highlighted, our strategy continues to manifest itself in consistent financial performance. We delivered record revenues and we have maintained a solid steady EPS level. We had a record quarter in our Index business, the strongest performance in our Listing business since several years and improvement in equity and derivatives volumes as well as our capture rates. With respect to our Index business, we achieved record revenue of $18 million and revenue growth of 13% year-on-year, largely driven by the launch of our Guotai NASDAQ-100 ETF in China, a partnership with Accretive Asset Management of the NASDAQ BulletShares Indexes, and a successful integration and contributions from our acquisition of the Index Business of Mergent.

In our Listing business, we are seeing an increase in IPO volume in general. We had 100 new listings year-to-date in our US markets, significantly ahead of our competitor, with 53 at midpoint of this year. And most importantly, for the first time since 2007, in the second quarter, we saw our Issuer base actually increase. We're certainly very happy with that. In our Trading business, we're also seeing positive signs of a more favorable environment. Equity market volume continued to see modest but steady improvement. While we would still describe overall equity market trading and IPO volumes as tepid, but what we are seeing is certainly indicative of a recovering economy and continued flows into equity investments is a positive development that we will continue to monitor.

As I pointed out earlier, we completed two of the more transformative acquisitions in our history and I wanted to spend a little time highlighting our progress with each. First, let me say that we are proud of the effort that went into making sure both of the Thomson Reuters and eSpeed transactions closed on or ahead of schedule and we're certainly on a strong path to creating value with these assets. Moreover, I believe the Management team has a higher confidence than ever in our ability to realize shareholder value as well as deliver better products and services to the marketplace.

With Thomson Reuters, we have a tremendous opportunity in front of us. As a leader in the Corporate Solutions space, we will leverage our market position and unmatched product offering across IR, PR and Multimedia platforms, and the integration and the rationalization is well underway. We have organized our talent, have set our leadership structure and unified our sales and product teams. Our focus going further is on further integration of the product sets, developing ground-breaking and exciting new products, and further refinements to the operating model. Certainly, I would say our disciplined approach to M&A enabled us to secure this asset at a fair price. While it's still early days, we're pleased about the performance so far and I mentioned previously the transaction is already accreting to our shareholders well ahead of the timetable we had previously set.

Similarly with eSpeed, we are very encouraged by the improved trading conditions since we announced the transaction and we now expect eSpeed to be accretive by year end ahead of the original 12-month projection. If you recall, we specified that we had [abated] thesis with respect to Treasury trading volumes. And as I mentioned during the earnings call, we said we cannot and will not predict when the Fed will reduce bond buying but we have a fundamental belief they will and we will be a beneficiary of that action. I think in the last three months, more people recognize the wisdom of that point of view.

But for our part, we really need to focus on what we can control, enhancing the product offering and the competitiveness of the platform the broker-dealers are asking for, the alpha portion of our investment theses. We have begun to execute on that alpha portion. We are hard at work on system enhancements and product line extensions and will become more profound in the coming quarters. Lastly, we've been able to finance these transactions at a lower cost than we originally anticipated, improving the profitability and the returns to our investors.

Moving on to NLX, this initiative underscores our commitment and continuing focus on our customers and investing in the future for us and our shareholders. We launched NLX with a more compelling and competitive model, driven by client demand for more competition and capital efficiencies with respect to trading and clearing of European long- and short-term interest rate derivatives. The platform went live in May and in only a few short months has produced encouraging volumes and open interest. Over the past few days, it has set a daily market share high in Sterling products of over 9% and open interest for the complete product set is at a near all-time high of over 30,000 contracts.

We are expending our custom based with 4 new participants added to the original 16 founding members and we're in the process -- a very active process of bringing more participants on-line in the next several months. We certainly have a fundamental belief that NLX is a value proposition for our customers, as they are looking for attractive alternatives to the vertical silos that dominate the market today. There is not a single customer that says I want to be part -- willingly part of a vertical silo. And we have certainly unique opportunities with our relationship with London Clearing House to allow our customers to recognize and realize material capital efficiencies.

NLX is a compelling investment opportunity for NASDAQ and this quarter, as part of the investment, we saw basically a $6.8 million increase in spending due to the launch of the product. Today, to recognize how big the opportunity, European incumbents generate about $1.5 billion in revenues from trading and clearing. And as I said previously, our goal is to get to a 10% market share in both the long and the short end of the curve and this will obviously deliver to our shareholders a tremendous return on this investment.

In closing, we believe we are setting a new baseline in our performance, driven by a diversified portfolio of businesses. Certainly, we expect to have good and even better quarters in the months and years ahead, but fundamentally, we are pleased with the shape this organization is taking and the balanced business model we have created. The underlying trend supporting our franchise, in particular, the strengthening economy and increased corporate confidence and the improving IPO market are indeed encouraging for us.

And while we are now entering the seasonally slower summer period, we have seen more busy $8 billion trading days in June, equity fund flows have been basically positive all year long, and 50% of a decade of drawdown in IPOs are up dramatically in the first half of '13 versus the same period last year. But that said, more important than the improving macro environment is the work that we have accomplished, in particular what I outlined earlier that has uniquely positioned this firm to deliver for our clients and capitalize in the opportunities we have before us. And my expectation is that you will see this team and this franchise achieve even greater things to come. With that, I would like to turn the call over to Lee.

Lee Shavel - ***NASDAQ OMX Group Inc - CFO***

Thank you, Bob. Good morning, everyone. The following comments will focus on our non-GAAP and pro forma non-GAAP results. Reconciliations of the GAAP to non-GAAP and pro forma non-GAAP results can be found in the attachments to our press release and in the presentation that's available on our website at ir.nasdaqomx.com.

I'll start by reviewing our second quarter revenue performance relative to the prior year quarter. Net revenues increased $35 million to a record $451 million. Contributing to this increase was a $30 million, or a 10% increase in subscription and recurring revenue, with contribution from both acquisitions and organic growth. Subscription and recurring revenue now represents 72% of our total revenues. Transaction-driven revenues rose $5 million on higher derivative and European equity revenues, partially offset by lower US equity revenues. On an organic basis, for constant currency and excluding acquisitions, net exchange revenues rose $3 million, or 1%.

I'm now going to go over some highlights along the lines of our reporting segments. All comparisons will be to the prior year period unless otherwise noted. Prior periods have been restated for comparability to our 2013 resegmentation. In Information Services, which includes our Market Data and Index businesses, revenues increased by $2 million, or 2%, to $108 million and operating profit by $1 million, or 1%, to $79 million. Operating margin fell 1% to 73% from 74% in the prior year.

Market data had unchanged revenues as growth in new product sales, in particular NASDAQ Basic, select pricing actions such as an increase for Level 2 quotes and Mutual Fund Services was offset by $2 million in lower audit fees versus the prior year period and lower industry tape plan revenues. Index Licensing and Services grew revenues 13% with the number of licensed exchange traded products up 40% to 125 and assets in these rising 59% to $68 billion. Moving to Technology Solutions, which includes Corporate Solution and Market Technology, revenues increased by $28 million, or 42%, to $95 million, mostly on the impact of the Thomson Reuters and BWise acquisitions but also on organic growth.

Operating profit increased from $4 million to $7 million, due to both the inclusion of Thomson Reuters and higher contribution from existing businesses. Corporate Solutions revenue doubled, due mostly to the impact of one month of the Thomson Reuters acquisition in the second quarter and secondarily due to strong demand for leading products like Directors Desk, where 234 clients were added, IR Desktop Tools, and press release services, which saw 12% higher volume.

Market Technology revenues grew 13%, with order intake of $44 million, a significant rebound from the first quarter '13 period but well under a particularly strong second quarter of 2012. A significant business win was announced in early July with Borsa Istanbul. The backlog at $507 million fell $15 million compared to last quarter as significant levels of deliveries occurred. A note here on our Technology Solutions operating margins. While we showed improvement from the last quarter and last year, we note that we're still early on in terms of enjoying the benefits of scale with Thomson Reuters, which was only one -- included one month in the second quarter. We have only begun to barely realize the $35 million in cost synergies related to that deal. We continue to work to make the recent acquisitions of BWise and Glide more profitable.

Moving to Market Services, which includes our derivatives and equity trading, both in the US and in Europe as well as the associated access and broker Services, we saw a $2 million, or 1% increase in revenues to $190 million with growth in US and European derivatives as well as European equities, partially offset by lower US equities. Operating profit declined $5 million, or 6%, to $75 million and operating margin of 39% was 3% lower than the prior year, largely due to the impact of NLX. Net derivatives trading revenues rose 9% as both US and European segments grew.

Higher US revenues were due to better industry volume and market share, partially offset by a slight decline in average capture, while European derivative growth was primarily due to higher equity-related futures and options and energy commodity volumes. Net equities trading revenues fell 2% as European equity revenue growth grew 16%, a product of higher capture industry volume and market share, was more than offset by a 12% decline in US equities on lower industry volumes and market share mitigated by higher capture.

In Access & Broker Services, revenues fell $3 million, or 5%, to $63 million, due largely to muted demand for ports and co-location, partially offset by growth in newer products like Microwave where we have 17 firms as customers, many with multiple routes and FinQloud, where we now have 18 clients. In Listing Services, which includes US and European listings, We saw $3 million, or 5% increase in revenues to $58 million, due to higher new listings in both the US and Europe plus the impact that rising markets have on European listing fees. Operating profit increased $1 million, or 5%, to $23 million and operating margin of 40% was unchanged from the year earlier period.

IPOs priced in the quarter doubled to 66 from 33 and our IPO win rate increased to 53% from 45% in the prior year period. NASDAQ showed continued strength in healthcare, where we won 16 of 17 IPOs in the period, Including PTC Therapeutics, Portola Pharmaceuticals and Chimerix. In addition to the IPO wins, we continued our success on switches as eight companies switched to NASDAQ while we only lost three.

Non-GAAP operating expenses increased by $35 million from the prior year; however, $25 million of the increase was from acquisitions including Thomson Reuters, $5 million was an increase in GIFT spending, and $4 million was due to FX. Consequently, core expenses were essentially flat to the prior year and consistent with our prior guidance. We continue to believe strongly in the return opportunities that we are investing in with our GIFT investments and acquisitions. Recall through the end of 2012, our return on invested capital for our GIFT projects that have either graduated or been terminated is 25%.

Second quarter 2013 saw a high water mark in terms of our expenses associated with GIFT and a concurrent impact on earnings was higher than usual as a number of new initiatives launched and went live in the second quarter. Over the coming quarters, we expect revenues associated with these projects to increase and thus reduce the earnings impact of the GIFT initiatives, but also a critical component to the program requires we continue to make tough decisions about which investments are meeting their objectives and warrant further investment and which will be re-evaluated, scaled back or terminated.

Moving on to our 2013 expense guidance on slide 20. We have incorporated expense budgets for the Thomson Reuters acquisition, which will be before seven months of the year, and the eSpeed acquisition, which will be for six months of the year. Together, these should add $145 million to $160 million to our 2013 expense guidance. We have also narrowed our core expense guidance to $925 million to $940 million from the prior guidance of $922 million to $942 million previously. So our new core expense guidance is $1.07 billion to $1.1 billion. Our new initiatives of GIFT expense budget is unchanged at $50 million to $60 million and so total expense guidance is from $1.12 billion to $1.16 billion for 2013.

Now since we will be integrating and operating our acquisitions as part of our core operations, we won't be distinguishing between the eSpeed and Thomson Reuters expense run rates and other core businesses in the future. We'll just report our core new initiative and total expense forecast as we have in the past. Non-GAAP operating income in the second quarter of 2013 was $184 million, unchanged compared to the prior year. Non-GAAP operating margin came in at 41%, down from 44% in the prior year period, primarily the result of the larger contribution from the lower margin Corporate Solutions business plus the increased levels of internal initiative investment, in particular, NLX.

Net interest expense was $24 million in the second quarter of 2013, an increase of $2 million versus the prior year, due to increased borrowings associated with our acquisitions. While we don't usually give net interest expense guidance and we don't intend to continue this in the future, in light of the unusual amount of partial quarter impacts in the second quarter of 2013, we project third quarter net interest expense in the range of $29 million to $30 million.

The non-GAAP effective tax rate for the second quarter was 34% versus 32% for the first quarter of 2013 due to a permanent tax benefit recorded in the first quarter of 2013, associated with taxable foreign exchange revaluation losses which were not reflected in pre-tax earnings. Going forward, we continue to expect our tax rate to be in the 34% to 36% range. Non-GAAP net income was $105 million, or $0.62 per diluted share, compared to $111 million, or $0.64 per diluted share in the second quarter of 2012. The $0.02 decrease reflects a $0.01 improvement in our core operating profitability, a $0.01 benefit from our share repurchase activity, and a $0.01 benefit from foreign exchange, offset by $0.04 of increased spending on GIFT initiatives and $0.01 higher debt costs.

Moving on to the balance sheet, on slide 22, we are showing our debt structure and our debt maturities. Our higher debt and leverage versus the prior quarter and the year-ago quarter reflect the completion of our acquisitions of Thomson Reuters at the end of May and eSpeed at the end of June. Our gross debt to EBITDA leverage is 3 times, consistent with our original expectation and as we continue to expect to leverage to return to the mid 2s range within three to four quarters. Once we return to our mid 2s target, we will enjoy more flexibility in deploying capital where it generates the best return.

We were very pleased to successfully complete our inaugural EUR600 million bond offering in June to finance these transactions at a more attractive rate than we originally anticipated. And this transaction provides increased funding diversification as we have now been able to access a new funding market and it reduced our overall FX exposure. So thank you for your attention and I will now turn it back over to Ed.

Ed Ditmire - ***NASDAQ OMX Group Inc - VP, IR***

Operator, can you please open up the line for questions?

QUESTION AND ANSWER

Operator

(Operator Instructions)

Rich Repetto, Sandler O'Neill.

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

Congrats on the progress on the acquisitions with both moving up the accretion so that targets -- or being accretive already, I guess, in the Thomson case. My question, it wasn't quite clear on the driver of why the accretion was coming early. I think you said on eSpeed, it was volume but could you give us a little bit more in-depth on why -- where -- is it costs as well coming earlier? And then the follow-up to that is if the accretion for Thomson and eSpeed are coming earlier, can we move up the potential buyback and debt-to-EBITDA getting to 2.5? I know Lee, at the end, said two to three quarters again but wouldn't it make sense for that to come earlier if these things are accretive earlier?

Bob Greifeld - ***NASDAQ OMX Group Inc - CEO***

Let's me start with your first question. The second part is tougher so I might Lee answer that. I don't know but one is, I would say is we've mentioned the financing costs, it was less than what we had on our Board model so that helped. Two is, I want to make it clear that we owned it for one month and it was mildly accretive so it wasn't a major change there but still I don't think we have ever done a deal where it's accretive right out of the box. I would say it was not an expense story; in the one month, we really didn't have much expense takeout. I think the revenue numbers were stronger than we had in the Board model, so if you identified two things, it's the cost of financing and the revenue.

And eSpeed, this is the world of opportunity; as I said, we've got a lot of good things going on. I'll answer the last part of the question. I think it's too early for us to say. I think right now it's steady as we go and we're just very happy that the acquisitions are coming strong out of the chute.

Lee Shavel - ***NASDAQ OMX Group Inc - CFO***

I would just add, Rich, the range of three to four quarters after the acquisition factored in on the aggressive side the possibility that we would be able to potentially enjoy better performance. But the bigger driver is the overall performance of the business. When we look at our operating cash flows, it's not solely going to be driven by eSpeed or Thomson Reuters but the performance of the business as a whole. I would just offer one comment in terms of the third quarter. As you know, seasonally that tends to be a slower quarter and so we are expecting that our ability to deleverage really to kick in beginning in the fourth quarter and the first quarter of 2014 in earnest, given that dynamic.

Bob Greifeld - ***NASDAQ OMX Group Inc - CEO***

I think it would be safe to say that it didn't delay the date when we get back to a capital return based upon the good performance and that's as far as we can go, right, Lee?

Lee Shavel - ***NASDAQ OMX Group Inc - CFO***

I think that's fair.

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

Understood. Okay. And then one follow-up would be with the new segment disclosure, we get to see a little bit more operating margins and expenses within each segment and you made great progress over in Technology Solutions. In Listing Services, it looks like expenses, if I'm getting this right, quarter over quarter, not year over year, but went up $4 million. If the revenue went up $3 million and the operating profit went down, so was there an investment in the Listings segment?

Lee Shavel - ***NASDAQ OMX Group Inc - CFO***

I think that probably what you're seeing, Rich, is that there were some marketing commitments associated with the Listing business that increased the expenses. It wasn't really tied into the core operating aspect of the business but those marketing commitments that we made that increased those expenses.

Operator

Howard Chen of Credit Suisse.

Howard Chen - ***Credit Suisse - Analyst***

You seem focused on digesting these two transactions and deleveraging the balance sheet. But just given your advising the accretion timeline forward and financing was more attractive, can you just discuss the bandwidth, your appetite, the opportunity set you see to take on another sizable transaction here akin to a Thomson or eSpeed, Bob?

Bob Greifeld - ***NASDAQ OMX Group Inc - CEO***

I would say the fact that we are getting good financial returns is not speaking to the operational work that we yet to accomplish. So from that point of view, I think we're ahead of what I might have thought but it's only -- it's very early days. So we're -- got our heads down. We've a lot of work to do in both transactions to make sure that it's really going to deliver the value. So I don't think there's been any change in our statement there. We're going to make sure that we do the right things with these assets, are integrated to NASDAQ OMX to delivering, I think a better value proposition for our customers and also for our investors. So the fact that the revenue was good, the financing cost was low is great tailwinds, but operationally, we still have a lot of work to do.

Howard Chen - ***Credit Suisse - Analyst***

Okay, thanks. And then my follow-up. You delivered some market technology projects during the quarter. Can you just talk about the quantity and types of dialogue you and the team are having with prospective clients? The discussion that you mentioned about some signs of optimism in the broader environment. Is that playing through into the Market Technology business?

Bob Greifeld - ***NASDAQ OMX Group Inc - CEO***

Well, I would have to say this, that the Market Technology business, that business services the exchanges and the broker-dealers is probably the shining star of our businesses so far this year. And again, that doesn't get reflected in the financial statements here and now like a transaction business was. It's a long lead time, one to get the commitment. We have a couple of commitments that we're not publicizing yet today we're still in contract negotiations. And then you've got awhile before you install the software.

But the competitiveness of our offerings is at an all-time high; it's being reflected in our major wins. We did announce Borsa Istanbul, which is truly a very significant transaction for us. But it's just in a very strong position right now and that goes for obviously the SMARTS component of Market Technology, which is just experiencing rapid growth and the core offerings we have has been just very well received by the marketplace. So we're very pleased with that.

Operator

Patrick O'Shaughnessy of Raymond James.

Patrick O'Shaughnessy - ***Raymond James - Analyst***

I wanted to touch on the Thomson Reuters acquisition of the Corporate Solutions business there. Can you talk about the client retention that you're seeing from that and the process -- I imagine over the next year or so of probably getting folks on to your technology as opposed to the legacy Thomson Reuters technology?

Bob Greifeld - ***NASDAQ OMX Group Inc - CEO***

Well, I would say this. That, for my people and a product point of view, we've approached this as a pure meritocracy and there is no black and white answer, Thomson people, old NASDAQ people or technology. So it's really sorting out in a proper way where best of breed is weighing from, people and technology point of view. So there's no clear line I can give you with that. I would say that in our Board model, we factored in a certain loss rate and I think we're doing better than that.

I think a lot of that is a credit to the old Thomson Reuters team, which is a very talented management team and they've kept that organization in very good shape. So we feel good about the retention. Obviously, this is about having superior product coming to market and being on the offense. We're going to definitely be investing in next generation products for both organizations. It started already and we're doing that from a solid base. And I would say that what the -- we have the advantage of, we have a solid base of customers and we have core technology we can evolve from to deliver ground-breaking products. So that's what we're doing in the quarters to come.

Operator

Chris Harris of Wells Fargo Securities.

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

Follow up on eSpeed, I assume it was a really strong quarter for volumes. Can you guys give us some sense on what revenue would have been for that platform in the second quarter if you had owned it then?

Bob Greifeld - ***NASDAQ OMX Group Inc - CEO***

I cannot. We haven't thought about it that way. Obviously, we closed at the end of the quarter. I think the June volumes, as you know, were strong. We paid attention but not that much since we didn't own it. We were in a slower period in the summer. But, as I said in my comments, I think more people now understand what we said during the earnings call that Fed bond buying at some point will reduce and that should have a positive impact. I mean the fact we had a couple of great days in June illustrate the point.

Lee Shavel - ***NASDAQ OMX Group Inc - CFO***

I would just say, Chris, that the run rate of about up $100 million for the 2012 level is something we continue to expect going forward.

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

Okay. That's helpful. My follow-up would be a question on the buybacks. I know you want to consider re-engaging when we get down to this 2.5 times leverage target. Are the rating agencies signed off on that? Or do you need to get leveraged down to that level and then revisit with the rating agencies first before being able to do anything from a buyback perspective?

Lee Shavel - ***NASDAQ OMX Group Inc - CFO***

Well, you first -- we never want to speak for the rating agencies but when we went to the rating agencies and described our capital management plan, it was clear that our immediate priority was in bringing that leverage down quickly back into the mid-2s range where we've operated in the past consistently. In the past, we've obviously repurchased shares at that leverage level. The -- we maintained our investment grade ratings level at that leverage level while returning capital to shareholders. So I think absent any change, our expectation is that we would have the flexibility to make capital allocation decisions once we're back in the mid-2s range.

Operator

Alex Blostein from Goldman Sachs.

Alex Blostein - ***Goldman Sachs - Analyst***

So just the first question on the trends you guys are seeing in the -- on the cash equities business. There's obviously a lot of chatter around potential changes in the market structure and curious to hear your thoughts on what are some of the things the industry could do or any update you could have on that front? I know that's been asked a couple of times in prior calls but wondering if there's any update on? And then secondly, volumes continue to be fairly disappointing and it looks like your market share has slipped again over the last few months and year to date. Any clarity on what you think is driving that and what you can do to see some turnaround would be helpful.

Bob Greifeld - ***NASDAQ OMX Group Inc - CEO***

Okay, with respect to change in market structure, I think I'm going to adopt the same statement I make with respect to Fed bond buying. At a point, it will change and for us to predict when is a little bit futile. But as I said, I think on the prior call we have increased confidence that the change is closer rather than further away. I would say the dialogue in the community, between the buy, the sell side and the exchanges is intensifying. And some of that dialogue is obviously happening independent of direct involvement with the commission, which I think has some good aspects to it.

So I think there's broad recognition from all aspects of the community that we do need to see refinements and improvements to market structure. So more optimistic than I was a year ago that something will happen. But I think it would be a mistake for me to be guessing when it will happen. But I do believe when it does happen, it would be positive for [LIT] markets. so we remain optimistic on that and I also have to say in Europe, which we don't get as much questions on, it's still an active discussion. We're either more optimistic that the market structure changes will, in fact, be favorable to exchanges. On the equity market share, we're looking at the numbers now because I don't know if you agree but I thought the highlight the capture rate certainly had improved quite well. So Lee, we have the numbers here.

Lee Shavel - ***NASDAQ OMX Group Inc - CFO***

So Alex, I think what we see in the second quarter, we saw an increase in our market share from 18.4% in the first quarter to 19.1% and then as Bob mentioned, we saw a very material increase in our capture rate from $0.33 per $1,000 to $0.36 per $1,000. So we certainly feel as though the trend has been to the positive from the first quarter.

Bob Greifeld - ***NASDAQ OMX Group Inc - CEO***

Right. So we thought the second quarter was that marked improvement as compared to what was a low point in the first quarter.

Alex Blostein - ***Goldman Sachs - Analyst***

Okay. I was just talking in a full year-to-date basis versus last year-to-date, but --

---

Bob Greifeld - ***NASDAQ OMX Group Inc - CEO***

Yes, we're looking quarter-to-quarter; it's more positive for us.

Alex Blostein - ***Goldman Sachs - Analyst***

Okay. Now -

Bob Greifeld - ***NASDAQ OMX Group Inc - CEO***

But I mean, we are taking positive steps on the equity market. We have an engaged management team and they're -- I think what they have done in the quarter has been quite positive and more good things to come.

Alex Blostein - ***Goldman Sachs - Analyst***

Then just a question on NLX. I mean, it sounds like you guys are getting a little bit of traction. But it still feels like you're some ways off from making that business profitable. At what point of time, whether it's just the passage of time or something material you need to see in the business. You say, okay, this works so this doesn't and we should either continue or not with that project.

Bob Greifeld - ***NASDAQ OMX Group Inc - CEO***

Well, your first statement was incredibly accurate. We are getting traction with NLX and I would say that it's on pace where we thought it would be at this point in time. But it certainly is an investment for us at this point in time. What we look for is customer engagement, and customer engagement which should then have a ripple effect with respect to volume through the industry. I had the opportunity to spend some time in London a couple of weeks ago and the level of customer engagement is incredibly high.

We have the large banks that are very anxious to be involved with the product, with the service. Takes them awhile to move and certainly we've got to live through the dog days of summer. But the will is there and we expect certainly as we get into the autumn, to have a dramatic increase in level of participation. So to answer your question, right now I look for customer engagement. I look for enthusiasm. Emotion associated with it and as I said during my prepared remarks, as you talk to customers, there's not a single customer that says I'd like the vertical monopoly structure.

And we represent for them and it could be their last good opportunity to break away from the grasp of that vertical monopoly. We're partnering with LCH on this; it represents a horizontal clearing opportunity and allows the customers to have some control of the destiny in addition to providing great cross-margining opportunities in the future. So this is a core value proposition that can't be replicated somewhere else. The customers recognize it; they recognize it as strategic.

So as much as we're always in it for the financial returns and these will be spectacular when we get there, the first things you have to look for are non-financial metrics. So it's a level of customer enthusiasm at the very head-end; then you look for their engagement with respect to them hooking up to your system, doing some level of trading, and then having incremental trading done as more participants join the marketplace. So far I think our progress has been strong and we certainly monitor it every day.

Operator

Brian Bedell from ISI Group.

Brian Bedell *- ISI Group - Analyst*

Just where we were on NLX, Bob, if you can talk about the long-term revenue goals; you framed a $1.5 billion market pie at current rates and you wanted to get to a 10% share of volumes. Is that the same for your revenue goal, a 10% share of that $1.5 billion pie, obviously, would probably expand over time given the pie would expand. But is that a goal we should be thinking about and about how long do you think it will take to get to that? And then if you also want to come in on the revenue synergies for Thomson Reuters and eSpeed coming from a, say, $240 million run rate at annualized at Thomson Reuters and about $100 million from eSpeed, maybe just characterize what type of revenue synergy growth we could think about for those deals over, say, two to three year or one to two year timeframe?

Bob Greifeld *- NASDAQ OMX Group Inc - CEO*

Great. Good questions, Brian. So let me start with the first. I think the $1.5 billion, one, recognized that it includes some clearing revenue in there. Some of our competitors have abundant bundled rate where we couldn't separate trading and clearing. One does it that way, the other does separate it and where we could separate it, we only put the trading number into that. That being said, I think $1.5 billion is probably a little bit overstated. But our goal is to get to 10% and $1.5 billion is not that dramatically overstated. Let's just call it $1 billion-plus opportunity; you can do the math on what 10% of that is better than I can. I certainly believe that, that number of 10% would have to be achieved sometime in the 2014 timeframe, and it could be the latter part. But this effort, as we get into beginning of '14, if we believe how the progress should go, it should accelerate. So we look for that.

With respect to the revenue opportunities, with the Thomson Reuters coming together with old NASDAQ Corporate Solutions, it's important to recognize in a software and services business, you are somewhat just limited by your imagination with respect to the product and services you can bring to your customers. The market that we're -- we can possibly address from a market sizing point of view is quite large. We have to make sure that we're pinpointing our efforts and certainly directing our development dollars in the right perspective. So this will be a long-term story but it should have notable progress every step of the way as we introduce product and services.

And first and foremost, as I said, as we announce a deal, we have this massive customer base, 10,000 customers where the vast majority of them have one or two relationships with us. And we will be having to market, call it, eight different products. So we just have tremendous cross-selling opportunities in that channel. So that will be the near term, near to medium term focus and as that's working its way through, we'll be spending dollars in exciting new products, which has started already and then we'll start leveraging the channel with those new products in the medium and the longer term. So just a lot of good things we can do with that.

On eSpeed, for the revenue point of view, we certainly want to gain some share. We think as we make system level improvements to the eSpeed platform, we have the opportunity to do that as we make the interfaces into eSpeed something more hospitable to our traditional customers, meaning things such as [HCL] and eSpeed put Fix in just before the deal was closed which is a positive thing. So we will be doing that in the short to medium term. But in addition, there is some low hanging fruit with respect to different product and services we can get to primarily in the treasury market itself and the plans are very active to do that. Obviously, none of that has gone live. We closed the deal at the end of last month but that's what you will see us doing in then the next couple of quarters new products related to the treasury of the marketplace.

Brian Bedell *- ISI Group - Analyst*

Great. That's very helpful. Looking forward to hear the progress on those quarter by quarter. Just lastly on high frequency trading, I know we've seen the market cache equities volumes in the US in July here. It would be a little soft relative to what you think for, at least in earning season, recognizing there's summer seasonality. But, Bob, what is your perception of the higher frequency pace of volume? Do you see that dialing back in July so far from even a June and May pace and then if that up -- if you see lower volumes, do you have a positive revenue capture impact on that?

Bob Greifeld *- NASDAQ OMX Group Inc - CEO*

Yes. One is, I don't know the exact percent of high frequency volume in the last number of days. But I would say that as a percent of the market has declined over the last four quarters and we don't see anything to change that trend line unless we see, I think changes in the VIX. So I think that volume will mirror the VIX in some fundamental way. So that's what we have. I forget the second part of your question.

Brian Bedell *- ISI Group - Analyst*

Just with lower high frequency share within your volume mix, does that help your revenue capture on US cash is pretty material?

Bob Greifeld *- NASDAQ OMX Group Inc - CEO*

I think you saw the revenue capture for the second quarter was significantly higher than the first quarter. A lot of that was based upon actions that we had taken but part of it would be also supporting your thesis that with the reduction in high frequency, our capture rate does in fact go higher. You saw really a 10% jump in capture quarter-on-quarter, so that was it.

Operator

Michael Carrier of Bank of America-Merrill Lynch.

Michael Carrier *- BofA Merrill Lynch - Analyst*

First, just on the expense guidance, you gave the $145 million to $160 million on Thomson and eSpeed for the rest of the year. I know predicting revenues is impossible and not something that you typically do. But can you give, just as of the current environment, what the current run rate would be just so we have the same mapping on the revenue side? And then out of the GIFT expenses, the $50 million, $60 million, just curious like what's the total -- because I think that it sounded like that was for 2013, just based on some of the GIFT initiatives that maybe were introduced in 2012. What's the total GIFT expenditures? And then like what percentage of those are hitting your targets versus what percentage are in the category of, we're going to keep a close eye over the next 12 months to make a decision whether we're going to continue with it or pull it?

Lee Shavel *- NASDAQ OMX Group Inc - CFO*

All right. So Michael, on the revenue side, we are going to give specific guidance but refer back to the run rates that we disclosed at the time of the acquisitions. For Thomson Reuters at the time of the acquisition, we were looking at an LTM revenue rate of about $230 million; for eSpeed, it was approximately $100 million. As I indicated previously in the call, we would anticipate that we continue to maintain that level in the near term. I think that's the -- our current sense that our expectations are consistent with what we had at the time that we announced the transaction. Obviously over the longer term, our expectation, and ambition is to improve upon that but I think that's a good starting point.

Moving to the second question on the GIFT side, that $50 million to $60 million is the total amount of our existing GIFT portfolio. So it includes both past GIFT initiatives that were initiated in prior years as well as initiatives that were started in 2012 and 2013. Now we do have a process where once a GIFT initiative has achieved its profitability objectives and it return objectives, then those initiatives graduate from the program and are moved back into the core business. And so we had a number of those; we had four of those last year that moved out of GIFT and back in, and effectively, that funding was then replaced by other new projects. But the $50 million to $60 million reflects all of our current active GIFT project, if that answers your question.

Michael Carrier *- BofA Merrill Lynch - Analyst*

Okay, that's helpful. And just on the non-transaction areas of the business that continue to increase their importance, when we look at the outlook, it just tends to be an area that's a little tougher and then you try to figure out what the growth opportunity is. But you mentioned in Thomson, you use some of the cross-sell opportunities. When you look across, whether it's the Corporate Business, the Tech, the Listings, the Index, what do you think in a decent capital market environment, like the top line growth in those businesses can be over the next two to five years? And is it combination of the cross-sell and then the new customer opportunity? Just trying to gauge what the potential could be in some of these newer areas that are expanding.

Bob Greifeld *- NASDAQ OMX Group Inc - CEO*

The first thing I do want to say, for the record, is that as much as we're proud of the fact that we diversified our business and we have these businesses that have recurring models, in no way, shape, or form is that to be taken as a negative statement with respect to our interest and love for the transaction business, right? We expect to have a balanced portfolio businesses going forward. And eSpeed and Thomson acquisitions, I think, reflect that spirit and that philosophy. To get to your direct question, I'm going to have a hard time giving you a direct answer to that today but I do understand the validity of the question. It's something that we're thinking about how we can better externally represent that.

When you look at the businesses, the exciting thing is that the define in proper market that we're going after is very large, right? The index marketplace is a very, very large market. There are established competitors and it's a growing marketplace and we represent a change agent to that business. So we've seen steady progress with that business over the years. And we're happy with that, but obviously aspire to much more. When you look at the Thomson business, the direct question you asked, you have to understand we say we're in the Corporate Solutions. We handle IR, PR, Multimedia. These are very, very large businesses and we just have to be properly managed, capital and thoughtful in terms of where we can and should grow.

But the point for this call is that the ability to grow is very large. And it comes down to our strategic planning and our execution of how we're going to do that. But it's not like we have a $5 million or $10 million market to go after. These are markets with big zeros after them that we think we have a position of strength to lever in time to come. So we're excited about that. I understand the essence of your question. Possibly we can answer it better in the time to come.

Ed Ditmire *- NASDAQ OMX Group Inc - VP, IR*

And operator, I think we have time for one more question.

Operator

Niamh Alexander of KBW.

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

So can I get you on the options, the big derivatives revenue stream there? There's been one of the competitors that have been running some campaigns to get you to be number one in market share with price pressure. You've lost a bit of share but your fee hasn't really come off this quarter which is impressive. So help me think about your appetite to give up more market share, just to keep the rate card and keep the revenue. Help me think about how they play off each other?

Bob Greifeld *- NASDAQ OMX Group Inc - CEO*

Well, I think the options market -- I don't know if there is one irrational competitor in the space today that has probably 1% market share and we have to focus on the value we're delivering to our customers. Our options team I think is quite clever in targeting which customers that then have ripple effects on the volume in the marketplace. So we are very comfortable with the way we were playing our hand today. It's actually less publicity than the equity marketplace. But it's probably a deeper game of chess and we have actions that we'll be taking in the months to come that we're very comfortable with that will protect our capture and gain back some of the share that we have. But we have the proper balance today; it's been an incredibly strong business for us. And let's not forget that we were not in this business at all not too many years ago. So we're very happy with where we are and we're happy with the plans we have for the balance of 2013.

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

Have you made management changes in that business or is it just that your options are just now running most of the transaction businesses?

Bob Greifeld *- NASDAQ OMX Group Inc - CEO*

Yes, I think the latter is more accurate. So Tom Wittman, who is running our options business, working for Eric Noll, now has direct responsibility for the equity business also.

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

Okay. Thanks. And then just if I could, just the last one. Cash equities, I think we've touched on it a little bit before. You've got potentially new management or new executive management into one of your bigger equities, LIT market competitors and they have been talking about not giving away the business and maybe eliminating rebates. Help me think about NASDAQ's position there. Historically, you've been more of a leader than a follower. If so, why have you not done that and what are the risks to your business if something like that happens?

Bob Greifeld *- NASDAQ OMX Group Inc - CEO*

That's a question -- I'm trying to think who that new competitor might be but they're in the call here trying to tell me who it is. I think I know who it is, but (laughter) -- and as I said the last time, I'm sure Jeff is now listening to the calls for the first time. So he obviously will be a new fresh voice in the space and to the extent that the new voice can help move the market structure and discussion along, we are fully supportive of that. I would say this. As I said in my, I think, in response to one of the questions, the level of dialogue between the market participants is very high at this point in time.

I think that there are a lot of new thoughts being discussed, which I think are positive. I would say that NASDAQ OMX, from its position, is likely to be a beneficiary of changes that happen. But we're not going to be a beneficiary because we're NASDAQ OMX but because we do run a very deep and liquid market that's transparent and where price discovery actually happens, right? So when you look at the equity marketplace today, it certainly -- our data feeds, the price discovery that's happening in our market that drives a lot of the volume in the fragmented world today. So we're comfortable with the fact that we are where price discovery happens. Our data feeds are the gold source for the entire industry and that will service well with respect to any changes that will happen in market structure.

Operator

I'd now like to turn the conference back over to Mr. Bob Greifeld for any closing remarks.

Bob Greifeld *- NASDAQ OMX Group Inc - CEO*

I think -- I will have a closing remark? Or Ed, you -- I close it then. All right. So Ed, you don't get to speak. I will wrap up by saying the evolution of this business continues. In a given quarter, it's interesting but you step back and look at it from four quarters ago or eight quarters or 12 quarters ago, it's remarkable. This next phase, as I said in my opening comments, is in some ways, the most exciting. We have large markets that we can compete in and we can compete in very aggressively.

We have also the proper investments that we're putting into our future. We're excited about that. The management team is engaged, it's strong and experienced. And we have a world of opportunity in front of us. We're certainly pleased with this quarter and expect greater things to happen in the quarters to come. Thank you for your time today. Certainly, we look forward to following up with whoever wants to talk to us after the call. But we appreciate your support. So thank you.

Operator

Ladies and gentlemen, this does conclude today's conference. You may all disconnect and have a wonderful day.