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NDAQ - Q1 2017 Nasdaq Inc Earnings Call

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OVERVIEW:

Co. reported 1Q17 reported net revenue of $583m and non-GAAP net income attributable to Co. of $187m, or $1.10 per diluted share.

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PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Nasdaq First 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 of 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 first 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 and Director*

Thank you, Ed. Good morning, everyone, and thank you for joining us today to review Nasdaq's first quarter 2017 results. As CEO of this organization for almost 4 months now, I've had the opportunity to gain new perspective and a deeper insight into the nuances of our businesses, our clients and the competitive environment in which we operate. I can honestly say that we, here at Nasdaq, are working very effectively together and with great intensity across all of our businesses to solve our clients' complex problems and opportunities, and to create more constructive opportunities to interact with the capital market.

Our focus across our core businesses, coupled with good execution with our priorities -- of our priorities, contributed to the record results we delivered during the quarter. In particular, our continued strong performance in our non-transactional businesses helped us offset a volume environment negatively impacted by record low volatility.

To begin, I want to spend a few minutes updating you on the tactical priorities for 2017 that I outlined during this call last quarter. Strong execution is a hallmark of Nasdaq, and I would say that we are progressing well across all of these priorities.

The first priority is to improve our competitive position across all of our businesses. In our Market Services segment, we have achieved strong market share gains across our equities and derivatives markets since the beginning of the year, and had a good opportunity to build on those increases with additional market functionality that we -- as we continued through the year.

For example, in March, we added a new order type, Post-Only non-displays in U.S. equities and saw material share gains as customers enthusiastically adopted it.

Moving forward, as we continue to work on implementing the Extended Life Order, or ELO, subject to regulatory approval, which rewards retail customers who commit to minimum order durations with elevated priority in the book, and which could then benefit participants from other customer segments, is effective at bringing more retail flow on exchange.

Similarly in Europe, where regulation under MiFID II is a big driver of change for our industry, we've experienced significant market share gains throughout Q1 and are developing a new Auction on Demand solution for our Nordic markets to compliment the current order book trading. The Auction on Demand functionality enables firms to interact in size while also complying with new MiFID II requirements from on-exchange trading.

The second priority is to complete the 2016 acquisition integrations and to deliver on our full potential to customers and shareholders. At the end of the first quarter, we have achieved $50 million in annualized run rate cost synergies across our 4 2016 acquisitions, and continue to build on our confidence that we will deliver on a full synergy potential of $60 million by the end of 2017, as forecasted.

We are on track with our major milestones as well, including the implementation of the ISE Gemini system on the INET infrastructure in Q1, with expected implementation of the ISE main market before the end of Q3. The Corporate Solutions integrations are also moving along on schedule.

The third priority is to commercialize our capabilities and key destructive technologies, putting them to work for our clients. We continue to make very good progress here, particularly with the early sales of the Nasdaq Financial Framework, or what we call NFF, which is our next-generation Market Technology platform that is fully cloud and blockchain enabled. We are also making progress in developing and delivering products that leverage machine learning, such as the Trading Insights data analytics offering within Information Services and important enhancements to our smart surveillance offering in market technology, and we expect each of these to contribute more meaningfully to results as we progress through the year into next year. Therefore, overall, we are performing well against the 3 tactical priorities for the year.

Next, moving beyond the 2017 execution priorities, I would like to provide an overview of new longer-term areas of focus for me and the rest of the management team, that I believe will continue to broaden our business and help shape the company going forward.

First and foremost, we are a client-driven organization. And as such, we are dedicating tremendous time and energy to understanding our clients' needs today, but also to anticipate the complexities that they will face tomorrow. We are also a world-class market infrastructure technology company, and we see a wide range of opportunities where we can apply our expertise and our technology assets to address our clients' needs both today and tomorrow. When I look across all of our businesses, we are in various stages of implementing these opportunities.

Today, I'm going to focus on 2 initiatives that we recently announced: the first is, the Nasdaq Private Market alternative; and the second is, Nasdaq Ventures. In the listings business, we are focused on areas where we can use our core market expertise and resources to bring new efficiencies to areas of the market that remain untapped. And during the quarter, we executed our first auction-based transaction in a client's partnership interest on the Nasdaq Private Market, or NPM, as we call it. And we launched the Nasdaq Private Market alternatives, or what we're calling NPM Alt, as an expansion into an adjacent area of opportunity designed to facilitate liquidity and alternative investment funds.

We are very excited about our new NPM Alt's offering. As over the past decade, alternative investments, such as private equity funds, have grown twice as fast as traditional investments. However, they remain very liquid, which limits participation to certain investor segments.

After 2 years of working alongside our clients to develop a product, we have created an auction-based liquidity solution that has appropriate regulatory approvals and that we believe truly fits our clients' needs. Specifically, we can facilitate secondary trades in LP interest repeater fund, as well as auction-based liquidity in both '40 Act and '33 Act registered funds. We are also expanding the platform to facilitate a direct secondary trade in private equity fund LP interest.

We see great long-term opportunity in shaping a new era for the alternative asset management industry by providing a structured schedule liquidity mechanism to create a fair way to transfer interest that ultimately broaden the appeal of the investment class to new investor segment. Moreover, the NPM corporate solution and NPM Alt share the same technology infrastructure, and many of the same features, which, of course, gives us the potential to scale our investments in this technology more quickly.

Technology is also -- I'm sorry, has always enabled us to do more for our clients and it will be even more important to our success in the future. To this end, over the past several years, we have increased both our own experimentation with and investment in new technologies that we believe will shape our future and that of the global capital market.

A key focus for me is not only to the new technologies themselves, but how we can better apply them to accelerate our pipeline of new commercially viable products that add greater value to our clients. And to this point, we recently announced a new initiative called Nasdaq Ventures. We are excited about this initiative, as we see Nasdaq Ventures as an avenue for us to discover, partner and invest in emerging companies in the FinTech space that are developing and leveraging groundbreaking technologies that align to our clients' needs, including, but not limited to, machine intelligence, blockchain and the cloud.

Importantly, this is part of a broader ecosystem that we're developing at Nasdaq to accelerate our innovation, growth and efficiency in ways which align with our long-term objectives in the global capital markets. Nasdaq Ventures compliments our own internal R&D innovation program, and we are working to create with the culture and a framework for our team to bring more ideas to the surface that leverage new technologies, drive growth and add value.

By investing in our future, we help ensure we are building sustainable franchise over the long-term. Today's investors in Nasdaq are benefiting from the investments we've made in this organization over many years, and is certainly with evidence -- evident in the first quarter's results as we delivered record non-GAAP operating income of $277 million and non-GAAP diluted EPS of $1.10.

A key driver was solid organic growth across our non-transactional segments at 5% year-over-year as well as positive impact of our recent acquisition. On a flip side, our Market Services segment was materially impacted by low market volumes across all of our asset classes, driven by a low volatility environment, despite a geopolitical backdrop that continues to have a fair amount of uncertainty.

In terms of total market -- industry market volumes, comparisons from the first quarter of '17 to the first quarter of '16 make clear this headwinds. Average daily industry volume in the U.S. equities was 20%, Nordic equities traded volumes declined 16% and U.S. multi-listed options were down 5%, and our Nordic commodities business experienced a 13% drop in volume.

That said, in terms of those key drivers that we can control, notably market share and capture rates, we are very encouraged by our progress across our equities and derivatives markets in the U.S. and Nordics. Through functionality enhancements and benefits from a more focused customer orientation, we ended the quarter with 1 to 2 percentage points higher market shares in both the U.S. and Nordic equities compared to the Q4 2016 period. We also averaged 42.5% combined market share in U.S. multi-listed options during the period, an all-time high. Capture rates, overall, were solid across our markets, although there are always many clients and volume tier mix dynamics that impact the given period.

We are on target to complete our Options Exchange technology migrations in 2017. And once complete, we will have streamlined the way our customers connect with and execute on the 6 markets in our options complex. At that stage, we will focus the organization on delivering new functionality and performance enhancements.

Shifting to our U.S. commodities platform, NFX, our market participating clients and partners continue to find opportunities across multiple product categories. And as a result, we continued to see strong performance during the quarter, with open interest surpassing 2.2 million contracts, more than 65% above the fourth quarter's 2016 high of 1.3 million. Average daily volume in the first quarter of 2017 was 213,000 contracts traded, up 25% from the fourth quarter of 2016, and almost triple the prior year's first quarter level.

Considering all of the drivers across the segments, and driven in large part by the low volumes, the Market Services segment experienced an organic Q1 year-over-year revenue drop of $12 million or 6%. With the inclusion of the ISE and Nasdaq CXC acquisition, our revenues in this segment were up 9% year-over-year before FX changes.

Turning back to the non-transaction segments. Our Market Technology business delivered the company's strongest year-over-year organic growth at 18%. Additionally, our new order intake in the segment was $47 million, more than double the prior year's first quarter level. We signed several interesting deals during the quarter, including 1 with the New York Interactive Advertising Exchange, called NYIAX. This new exchange, a marketplace facilitating price discovery and transactions and online advertising derivatives, will lever the Nasdaq Financial Framework architecture, and is expected to be the first exchange to be deployed in the cloud and utilizing the blockchain. It also demonstrates the applicability of NFF beyond traditional capital markets applications.

We are also extended and expanded relationships with some key clients, including the Hong Kong Exchanges & Clearing, which will lever the Nasdaq Financial Framework for their next generation derivatives trading and clearing solutions. Additionally, NEX group will deploy the smart surveillance technology and its leading foreign exchange platform.

We are all well-positioned to capitalize on this momentum, as we continue to make more components of the Nasdaq Financial Framework available throughout the year, and as we enhance the functionality of our surveillance offering and expand it to new client segment.

In our Information Services business, we experienced strong growth in AUM in exchange for the products tracking our indexes since last year across many of our index families, driven by inflows and market performance. 9 new ETPs launched tracking Nasdaq indexes in the quarter, including new products in Taiwan.

We continue to have a strong pipeline of new tradable index products we expect to launch in the quarters to come. Within our data products business, we experienced moderate revenue growth. In Q2, we plan to launch a new data platform that combines our own proprietary data and third-party data with machine intelligence capabilities. This platform, called the Analytics Hub, is the second product coming out of our innovation lab, following Trading Insights. Our goal is to provide buy side with better data sets to help them make better investment decisions.

Turning to corporate solutions. In the listings business, we are proud to welcome strong new companies to the Nasdaq family, including Presidio, Hamilton Lane and Laureate Education in the first quarter, so our overall IPO win rate eased from over 70% last year to 52% in the quarter.

While a few years ago, we might have been excited by slight majority in terms of win rate, we've progressed to the point where we expect more of ourselves in terms of our ability to demonstrate our unique and superior value proposition to every company that chooses to enter the public market.

In order to continue our decade-long IPO share gain story, we'll work to ensure that we're effectively communicating our unique capabilities to support corporates across their life cycle. This includes how the Nasdaq Private Market can deliver benefits during their private ownership, to how our IPO auction mechanism can reduce volatility during the critical period and immediately after their initial public offering, and how we can help them execute as public companies with intelligence, analytics and communications tools from our Corporate Solutions offering.

Turning to our Corporate Solutions business. I'm pleased to report that the churn to organic growth we reported last quarter continued into the first quarter. When you think about where we started with this business several years ago, it is indeed encouraging. And we continue to make good progress on our efforts to position this business for sustained organic growth.

Lastly, as we execute well, we earned the ability to invest in our future, while at the same time delivering tangible returns here now for our shareholders. And in that vein, we are announcing today a 19% increase to our quarterly dividend, which to me, is a further vote of confidence in Nasdaq's future growth and profitability story as well as a continuation of our strong track record on shareholder returns.

To sum up our performance in the first quarter, while we experienced some revenue challenges in Market Services, due to the low volumes as well as sluggish performance in listings, we continue to see steady organic growth in Information Services, continued inflection to organic growth in Corporate Solutions and our strongest momentum in Market Technology.

Looking beyond the immediate numbers, we continue to make a significant progress in our acquisition integration, we achieved strong market share across most of the markets that we operate, and we launched a significant new liquidity mechanism for alternative asset managers, while we continue to tap into strong demand for our Technology Solutions, in particular, our next-generation Nasdaq Financial Framework.

Therefore, we are confident that we have a strong foundation from which to advance and seize future opportunities throughout the remainder of this year and beyond. And it is the potential of this firm, and the opportunities in front of us, that I'm so passionate about and why I remain so optimistic about a future.

Now, I'll turn it over to Michael to review the financial details.

Michael Steven Ptasznik - *Nasdaq, Inc. - CFO and EVP of Corporate Strategy*

Thank you, Adena, and good morning, everyone. My comment -- commentary will primary focus on our non-GAAP results. 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.

I will start by reviewing first quarter revenue performance, relative to the prior year quarter, as shown on Page 3 of the presentation and organic growth on Pages 4 and 15. The 9% or $49 million increase in reported net revenue of $583 million consisted of $50 million in net revenues from our 2016 acquisitions of ISE, Marketwired, Boardvantage and Nasdaq CXC, and organic growth in the nontrading segments of $15 million or 5%. This was partially offset by an organic decrease in Market Services, net revenues of $12 million, and a $4 million negative impact from changes in foreign exchange rates.

I will now review highlights of an each of our reporting segments, and all comparisons will be to the prior-year period, unless otherwise noted. I will start with Information Services, which as reflected on Pages 5 and 15, saw $5 million or 4% in increased revenue, consisting of $3 million or 2% organic growth as well as a 2% -- $2 million increase related to the ISE acquisition.

While we saw healthy organic growth in core data and in revenues from licensed ETPs, the comparison to the prior-year period also reflects $1 million in lower audit collections and a decline in fees on derivative product licensing Nasdaq indexes due to lower volumes in Q1 '17 versus elevated levels in Q1 '16.

The operating income margin was 74% in the first quarter, up from 73% in the prior year quarter. Market Technology revenue, as shown on pages 6 and 15, increased $10 million or 18%, with organic growth driving substantially all of the change.

The growth was driven by increased revenues from software licensing and support contracts, growth in surveillance products as well as BWise advisory revenues. New order intake was $47 million in the first quarter and the period end backlog finished at $777 million, unchanged from December 2016 and within 1% of all-time highs.

The operating income margin was 19%, up 1 percentage point from 18% in the prior-year period.

Turning to Corporate Services, on pages 7 and 15, revenues increased $17 million, or 12%, primarily due to the Marketwired and Boardvantage acquisitions, but also due to $2 million of organic growth, all of which came from Corporate Solutions. Corporate Solutions organic growth reflected increased revenues in the public relations and Investor Relations businesses.

Listings revenue declined $1 million, primarily due to the unfavorable impact from changes in foreign exchange rates. Excluding FX, revenues were unchanged, while the number of corporate listings was relatively steady versus the prior year.

Now while my commentary is generally focused on year-over-year comparisons, I'd like to take a moment and discuss the comparison to Q4 '16, specifically for listings, given the sequential decline of $4 million.

This was primarily driven by the fact that de-listings over the course of the entire year only impact revenues beginning in the following year's first quarter because listed companies prepay their annual listing fees at the beginning of the period for the entire year. In 2016, the number of Nasdaq delisting was about 30% above the prior 3-year average, overwhelmingly due to elevated M&A activity. This dynamic drove a $2 million decline in revenues in the first quarter versus the fourth quarter of 2016.

Additionally, a seasonal decline in revenues related to advertising on the Nasdaq MarketSite tower and lower new issues activity in the Nordics together, drove an additional $2 million decline versus Q4 2016.

Now turning back to Q1 '17 versus Q1 '16, the Corporate Services operating margin was 27% versus 24% in the prior-year period. Market Services net revenues on pages 8 and 15 saw a $17 million increase, reflecting inclusion of $31 million of revenue from the acquisitions of ISE and Nasdaq CXC, offset by a $12 million organic decline, driven mainly by lower industry trading volumes and a $2 million unfavorable impact from the changes in FX. Market Services operating income margin decreased 1% to 55% versus 56% in the prior-year period.

Turning to pages 9 and 15 to review expenses. Non-GAAP operating expenses increased to $26 million. This increase included $22 million in expenses from our acquisitions, net of $11 million of realized expense reduction from synergies, and a $7 million or 3% organic increase. This was partially offset by $3 million favorable impact from changes in foreign exchange.

Turning to Slide 10. Our revised 2017 non-GAAP operating expense guidance with a range of $1.26 billion to $1.3 billion, or a $10 million reduction at the high-end. Cognizant to annualizing Q1 '17 expenses of $306 million might indicate a full-year trends below our guidance, I'd like to be explicit about some of the factors that contribute to higher expenses in the second quarter and the remainder of 2017, despite the expected achievement of the remaining synergy targets.

Annual merit increases, and certain employee equity grants, impact compensation expense starting in the second quarter. Our businesses with higher revenues in later quarters, due to seasonality or other factors, will incur higher performance link compensation as well as higher related -- as well -- as long -- as well higher cost related to delivering certain services.

As previously noted, we have budgeted $40 million to $50 million in R&D spending, and we have plan for those expenses to build as the year progresses. And starting in Q2, we will begin incurring depreciation and other expenses associated with new offices we've opened in Philadelphia and Bangalore, though each also drive bottom line results as we continue to optimize our real estate footprint.

Non-GAAP operating income increased 9% in the first quarter of 2017 and the non-GAAP operating margin totaled 48%, unchanged from the prior-year period as expansion in margins in each of the nontransactional segments was offset by slight contraction in the Market Services segment.

Net interest expense is $35 million in the first quarter of 2017, an increase of $8 million versus the prior-year period, reflecting the additional interest expense from the financing of our 2016 acquisition. The non-GAAP effective tax rate for the first quarter of 2017 was 24%, at the low end of the 24% to 26% range we provided during the last quarterly call.

We continue to expect the 2017 non-GAAP effective tax rate to be in the range of 30% to 32%. And for the second quarter of 2017, we expect the tax rate to be between 33% and 35%.

Non-GAAP net income, attributable to Nasdaq for the first quarter of 2017, was $187 million or $1.10 per diluted share compared to $153 million or $0.91 per diluted share in the prior-year period. Included in the $1.10 non-GAAP diluted earnings per share is $0.13 related to the tax impact of ASU 2016-09.

As mentioned during the fourth quarter 2016 call, we adopted new accounting guidance starting in the first quarter of 2017, which requires us to recognize the tax effect relating to the vesting of share-based awards in income tax expense in our income statement rather than in equity.

Turning to capital. During the first quarter, our outstanding debt increased modestly due to fluctuations in FX rates. Our debt-to-EBITDA ratio ended the period at 3x, and we continue to expect to deleverage to the mid-2 level by mid-2018, which we aim to achieve through both EBITDA growth and debt reduction.

Subsequent to the end of the quarter, on April 12, Moody's upgraded our bond rating from Baa3 to Baa2, in line with S&P's unchanged rating of BBB. Today, we're also announcing restructuring of our liabilities. There are several elements to this.

First, on May 26, we plan to redeem our 5.25% January 2018 coupon bonds, with a face value of $370 million. Second, we expect to fund this redemption through a combination of cash-on-hand and proceeds from the sale of commercial paper issued through Nasdaq's newly establish commercial paper program. And third, in connection with establishing commercial paper program, we're placing and extending our revolver, which had a capacity a $750 million and was due to expire in 2019, with the revolver that has a capacity of $1 billion and expires from 2022.

Nasdaq returned $209 million in capital to shareholders in the first quarter of 2017, consisting of $156 million in stock repurchases and $53 million in dividend. As of March 31, 2017, there is $273 million remaining on the board repurchase authorization. Consistent with our approach, the company intends to primarily utilize repurchases to offset the impact of equity share issuance and our repurchases during the quarter, largely accomplish this for the full year 2017.

As Adena noted, the company also announced a 19% increase today, and the quarterly dividend of $0.38 per share. In addition, the Board of Directors has adopted a dividend policy, which makes clear the intention to provide shareholders with regular and growing dividends over the long-term as earnings and cash flow grow. This underlines the company's desire to continue what has been a significant dividend growth story and consistent focus on delivering total shareholder returns.

Thank you for your time, and I'll turn that back to Adena.

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

Thanks, Michael. As we have discussed, we are very pleased with the operating performance of the business despite a difficult first quarter volume environment. Our market share is improving, our market tech business continues to experience strong demand in performance and our other businesses are progressing well. We also have continued our efforts to provide healthy returns back to shareholders with our increased dividends. We look forward to continued success as we progress through the year.

And with that, we will turn the call over to questions.

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*

I guess on 1 question, the question I guess will have to do with expenses. So you've jumped well into the achieving the remaining synergies. And I'm just trying to understand, Mike, you did a great job of explaining why expense to go up in the back end, but it just seems like -- is there any potential to increase the synergies since we're already within $50 million of the $60 million run rate? Is -- where is the offsets there by the expense outperformance here in the first quarter?

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

Rich, thanks for the question. So I think the first thing I would say is we were very, very cognizant of the low-volume environment in first quarter, and therefore, we managed our expenses well into that environment. And as Michael mentioned, we do have things that we're going to be doing throughout the year as the revenue continues to grow and as we continue to implement on our initiatives that will help create some natural increase in expenses. In terms of the synergies, we are, as you pointed out very well, underway in achieving our full year synergies. But at this point, I think we're very confident in our ability to achieve the $60 million, but we're not increasing that guidance right now.

Operator

Our next question comes from Dan Fannon with Jefferies.

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

I guess my question is on listings. I appreciate the color on the sequential decline, but I guess we're back at kind of early 2015 levels in terms of revenues for listings. Can you talk about how your outlook for that revenue line item?

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

Sure. So I think that one of the things to point out is, as we made a price increase in listings a couple of years ago, and as part of that price increase, we also eliminated, for certain issuers, the listing of additional share fees, so that has been running off because that's a fee structure that amortizes over 4 years. So that's been running off as we've enjoyed a higher level of fees coming in from our listed companies, and so there was a significant increase in listing fees in 2015. And that -- we then have another list that we've already announced that comes into play in 2018. This year, however, has just been an interesting year where -- in 2016, as Michael mentioned, we had a lot of M&A activity that created delisting activity against a relatively weak U.S. IPO market last year. So, obviously, we hope to continue to see a better trend in terms of new IPOs coming to market, and hopefully, some level of abatement of some of the M&A activity, which then will create a better net listing -- story for us. The other thing just to point out for Q1, and it's a dynamic that specifically occurs in the Nordic. Nordic revenues from new listings tends to come in earlier in the process. We don't amortize those listing fees unto the same degree, and there's other fees that come into play when we get new listings. And Q1 was a quieter quarter for the Nordics, but we do see a very strong pipeline of listing -- listings coming into the Nordics throughout the year. But that also just created a just a lower quarter in terms of listing revenue.

Operator

Our next question comes from Chris Allen with Buckingham Research.

Christopher John Allen - *The Buckingham Research Group Incorporated - Analyst*

Wanted to ask a little bit about the Market Technology. I mean the order intake was solid, but the backlog is -- it was down a little bit year-over-year, it's been flat now relative to the fourth quarter. Obviously, guys are always working on stuff that doesn't find its way into the back. I -- just wondering like what the pipeline is? And how do we think about the growth trajectory moving forward from here?

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

Sure. Well, I think that what we provided is an outlook of generally mid- to high single digits growth in the Market Technology business. We, obviously, got off to a great start in the first quarter in terms of revenue as well as order intake, and recognized that the first quarter is usually a pretty quiet quarter for that business in terms of what we call short-term revenue, or can change requests and things that come in. We have a -- usually fourth quarter is a very active quarter in terms of that type of revenue and first quarter tends to be a seasonally low quarter for that, so that should pick up as we go through the year. At the same time, we have extremely strong demands, frankly, coming from all elements of the business. It's actually -- it feels great in terms of understanding what our clients are looking for and how they want to continue to advance their markets. And then, frankly, our new technologies and what we're able to do just deliver for them, I think that we are matched up extremely well with what our clients are needing going forward. So we feel very good about the demand from our existing clients in terms of extending and expanding existing contracts, as well as from new clients as they are looking at ways to make their -- streamline their infrastructure and take more advanced technology at the same time. So I have to say, it does feel very good right now in terms of the demands for our services.

Operator

Our next question comes from Alex Blostein with Goldman Sachs.

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

Wanted to touch on the index business. So the underpinnings for growth (inaudible) and, obviously, very robust. You guys are winning incremental ETP products in the market, I would say have a lot of the last couple of years. But if you look at the revenue in that bucket, it's been kind of bouncing around that kind of 28 to 30 range for the last 2 years. So just a little more clarity, I guess, on what's going on underneath? And is it a pricing issue? Is it a volume issue? Is it a pricing issue? Kind of how should we think about the growth here going forward? And what could sort of accelerate it?

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

Sure. Well, I think that there are 2 components so the index revenues that are worth mentioning. One is AUM, kind of basis points on AUM, and that differs by index in terms of some of our indexes command higher fees than others, so that's 1 component. And the other component is the futures trading revenue off of the queue. And in the quarter, we saw a 40% drop in futures volumes on queues, which created a downward pressure in that revenue stream against good -- I think solid growth within the AUM-related revenues. And we did see significant, I would say, that the queues, in particular, had a strong AUM quarter. And they tend to have slightly lower fees as compared to our smart beta indexes that have higher fees associated with them. So while we saw a really strong AUM growth, it's not going to be a 1 for 1 in terms of AUM growth and revenue, it does depends on the composition of the growth. But I do -- I would say that the futures volumes have created an offset to overall AUM revenue growth for the quarter.

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 wanted to come back to the Market Technology sides for a second here. You mentioned good interest from existing clients. Can you flesh this out a little bit and maybe define the addressable market there a little bit more? Because I think you had some wins in the past that clients took the whole gamut, I guess, so can you just in a -- but I'm sure there's some legacy clients that are only use a couple of services or maybe the core technology, so maybe a little bit more how you would define the upsell opportunity, the cross-selling? How many clients do you have that are only taking the few products then the -- and how are the margins when you actually upsell that? So lots of question. Go ahead.

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

Yes, so that's a lot of questions. I mean I don't have the specific numbers that you're asking for around the addressable market, but I can give you color around that right now. And I think that with regard to the overall addressable market, you're right that we have some clients to really take almost every service we have to offer, but only a few, I'd say a small handful of clients take the full gamut of what we have to offer. And then there are a lot of other clients that might just use us for derivatives or might just use us for trading and not for clearing. And so what we find is that as we continue to develop our relationships with our clients, they are realizing that they might have only use us for trading in the past, then they now need a new clearing infrastructure or they're really looking at a complete redo of their post-trade infrastructure and are looking to work with us on both clearing and CSD. So the clearing, I would say, post-trade infrastructure have been the strongest demand among existing clients in terms of expanding our relationships and growing the footprint within our existing clients. In terms of trading, I would say that that's where our new clients, like NYIAX, and we've had a couple of other new clients come on board on the trading. And then, of course, as we continue to work on our Project Ocean Initiative, that then expands our ability to offer up our trading and operations capabilities into the broker-dealer community and the demand for that continues to be very strong. Those contracts, just like any other market tap contracts, takes a while to develop, but we are in active dialogue with several large broker-dealers around the use of our technology for that purpose. So I would say in the core market tap that -- where we see kind of the demand developing. In Smart, I think that there are 2 areas of growth: One is, frankly, we just continue to get penetration, and the growth there has been double digits for a long time. I think the second, though, is that as we have built out a market intelligence suite around eComms compliance, we are really building up a nice pipeline, but also going into production now with a couple of clients on kind of a more holistic approach to surveillance, both eComms compliance matching up with Trade Surveillance. And then the third area of growth for us is in the buy-side, which is a total Blue Ocean kind of opportunity for us to running our -- all of our smart surveillance capabilities into the buy-side, and we have a growing pipeline there, but that's a longer-term growth opportunity for us.

Operator

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

Michael Roger Carrier - *BofA Merrill Lynch, Research Division - Director*

Michael, maybe just on the debt side, given what you hit on in terms of the redemption, and then the increased revolver, (inaudible). Just wanted to get a sense on the outlook and may be interest expense on how that all plays out, and I'm assuming it's a net benefit, just given the cost. But any color on that? And I guess any charges on the redeeming of the 2018?

Michael Steven Ptasznik - *Nasdaq, Inc. - CFO and EVP of Corporate Strategy*

Yes, so the simple way to think of that it is that, we have 5.25% bonds that will be redeemed, and then we will be replacing that with the CT program, to a large degree, and so you can see whatever the differential rate will be, we're not going to speculate on what the CT rates might be, but you can see what the differential might be between those 2 to determine what the change in the interest rates would be. And then there will be some onetime expenses that will go through as a non-GAAP item that will book through the quarter in Q2. Still finalizing what those numbers are, but we'll be in the $10 million to $15 million range most likely.

Operator

Our next question comes from Chris Harris with Wells Fargo.

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

The question on Corporate Solutions. You mentioned, second quarter in a row of organic growth. I think the rate of growth is probably a little bit less than you guys would like to see. Any updated thoughts on what needs to happen for that part of the business to see faster growth than it current seeing?

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

Yes, I would agree that we would like to view it to get to a higher sustainable growth rate in that business. Well, where we've seen strong growth is in actually our core offerings of IR intelligence and the PR suite. So we're very encouraged by the fact that some of our core offerings are really experiencing strong growth. And but where we see some continued challenges is in the webcasting business, which we discussed over the last year, and so I think that that's kind of creating a net offset to some of the stronger growth in our core solution. We continued to look for ways to make sure that our webcasting solutions are kind of turning into a growth opportunity for us. In terms of the quality of what we do, we are, I would say, the highest end of quality in terms of our webcasting capabilities. And we want to continue to integrate those solutions into the rest of our offering to make them more part of an integrated solution. So there are things that we're going to do to continue to try to create a growth opportunity there. But we are encouraged by the core growth in the offerings where we've been investing the most. We are very pleased to see that the level of demand that's developing in this product. In terms of as we continue to go through the year, just to give you a little color on the business itself, we are going through some tech implementations in our PR business in terms of moving everyone onto the GlobeNewswire platform, and that's well underway. As we've been doing the Marketwired integration, and that's been positively received. We also are going to be slower, and this is intentional and modeled slower in terms of integrating our board solution clients just to make sure that we do it in a very measured way. But again, we're seeing really strong demand and growth there as well. In terms of the other area of integration or migration has been in our web hosting platform, and we're well underway in migrating everyone to a much more advanced solution. But throughout all of these migrations and integrations, we are building out a kind of a fundamental platform that allow -- will allow us to share content across our solutions, particularly, as we get into 2018. And we do think that will actually create a stickier offering to all of our current clients and continue to give us more of an opportunity to elevate us further into the C-suite, and that I think will, hopefully, be a significant growth catalyst as we get into 2018. So and that it is -- I think we talked about this at the Investor Day last year, actually in March, that we have this march to an integrated platform solution, and we are on track, but it does carry us into '18 as we continue to create a more full service solution for our clients.

Operator

Our next question comes from Vincent Hung with Autonomous.

Vincent Hung - *Autonomous Research LLP - Partner*

So in this (inaudible) deal, they're looking to extract some synergies from savings and market data. Do you see any revenue impacts from this? And are you concerned by any further consolidation in the HFT industry?

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

So I -- there -- I think that there will be some impact, we're still accessing exactly what that would be, and they, obviously, have to go through, and I'm sure they have certain assumptions, but we have some work to do just to make sure that we fully understand it. It's not going to be significantly material, but as you said there, consolidation in the HFT industry could have some impact on our, maybe data, but in connectivity services. And at the same time, we have -- what we have found is when there has been consolidation in the industry in the past, it tends to give rise to new players.

And so the net of it has usually been a lot more muted than what you would expect in terms of initial impact, and that's just, by the way, the nature of the industry, frankly, is usually when there's consolidation someone sees there's an opportunity to get in, and that has been the history of our business. So we see it as on a netted basis, we're not, in particularly concerned, but we definitely are, obviously are evaluating it right now.

Operator

(Operator Instructions) Our next question comes from Brian Bedell with Deutsche Bank.

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

Just maybe go -- to go back to the Corporate Services business. Maybe, Adena, if you can talk a little bit more about how you view the revenue and profit outlook from the 2 new initiatives that you mentioned, NPM Alt and Nasdaq Ventures? And I assume those are both going into the Corporate Services business. Is -- are those initiatives -- do they have potential in expanding that core growth rate in 2017? Or is that more of a 2018 and beyond type of view? And then, if you can talk about how much of your R&D allocation is to this to do 2 new ventures?

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

Sure. So the corporate ventures actually is at the corporate level, and it has more to do with developing an investment team that looks at taking minority stakes in new technology companies. And we would take -- what we've announced is that we would expect the stakes to range anywhere from less than $1 million to around $10 million, so it depends on how late stage -- early-stage versus late stage we get into the investment. They will be oriented towards technology companies, as well as any, I would say, new ventures that we believe will be accretive to our business over time. We will only be looking at technology companies that provide a strategic benefit to Nasdaq. So an example of a similar type of investment we've made, we made an investment in a company called Chain, which is a blockchain solution, and we are integrating Chain into our blockchain solutions through the NFF. We also have made an investment in a company called Digital Reasoning, which is a machine learning company, and we are integrating that capability into our SMARTS offering. So those are the types of investments we would look to do at the corporate level, not -- it won't be sitting within Corporate Services. And so I think that we've just announced that it is going to be a more organized effort going forward, and we will have a very specific process around evaluating those opportunities. We -- in terms of the NPM Alt initiative, I -- this is a kind of a brand-new thing. There is no one out there who does this today. So looking at sizing it, it -- the number -- the amount of secondary that I've gone through, the private equity industry in the last year, is somewhere in the range of $60 billion. Now capturing all of that, or frankly, catalyzing a further ability to do secondaries and making it more organized, more efficient, more streamlined and having a true price discovery event around those trades, we think is a huge opportunity for the industry to allow for more episodic liquidity in those funds. But it's brand-new, so it's not -- so today that's all through manual broker led process. I would say that we see this as a long-term opportunity for us, we're not investing significantly because we are able to leverage the NASDAQ Private market, so it's all within the $40 million to $50 million that we've announced in our R&D program. But it is something that we think that, overtime, we will be one of those things that builds over time. And I personally see it as kind of a 5-year type of horizon in terms of really becoming a very significant part of our business. But I do want to say, it is a long-term investment project for us. And it is, again, not a significant annualized investment that we need to make in order to make it go.

Michael Steven Ptasznik - *Nasdaq, Inc. - CFO and EVP of Corporate Strategy*

And Brian, just to clarify, the Nasdaq Ventures because that is investment base, that's -- thing about is balance sheet-based and not related to the $40 million to $50 million of the R&D budget.

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

Right.

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

Right, That's clear. Just on the platform for NPM Alts, do you see developing that this year? Or is that also longer-term?

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

No, it's developed. Actually, so we've announced it as launched. We are actively working with our clients right now to develop out the first liquidity event. So there's 2 things that can happen: One is that they can just launch the ability to do a liquidity event through the platform on their existing funds. And the other would be to basically embed in a prospectives of a new fund, a liquidity mechanism that allows them to do monthly or quarterly Auctions within a '40 Act vehicle. So we're basically working with clients on both. And if we have a client that is willing to do liquidity events on existing funds, that could be a revenue that starts to come in this year, if they're putting into the perspective that their going out to market, the revenue will likely be start in -- start to pull in next year as they launch the fund and start to offer liquidity. But it is something that we built platform, it's ready to go, and we are actively working with a lot of clients on implementation.

Operator

Our next question comes from Matt Moon with KBW.

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

This is actually Kyle Voigt. So just a follow-up on earlier questions on the listings business, with the migration of the listed companies and the all-in fee structure beginning in January 2018, you mentioned, there will be a revenue uplift. But I'm just wondering if you can help us quantify the expected financial impact of that because I think the first year it was optional in 2015, you grew listings revenue something like 15% constant currency?

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

Yes, so we are providing specific guidance on that. It will be significantly lower than the first -- on the first push just because a lot of clients did, in fact, opt in. There were 2 things that happened in '15. There was a modest price increase across all listings, and then also on top of that, certain listings opt -- opted into the all-inclusive fee, which is an incremental fee on top. So what's going to happen in '18, is the rest of the firms will be grandfathered into all-inclusive fee structure. And -- but that's going to, obviously, have less impact than what happened in '15. A lot of companies chose to opt in over the last couple of years, but every year there have been more opt in coming through.

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

Plus, you also continue to have the loss of the additional fees?

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

Yes, so the LAF fees will continue to run off also, which -- so that's a 4-year runoff schedule.

Operator

Our next question is the follow-up from Michael Carrier with Bank of America.

Michael Roger Carrier - *BofA Merrill Lynch, Research Division - Director*

Yes, just a 2 small things, just on the data side. Adena, I think you mentioned on the new platform in 2Q, on the analytic side. Just wanted to get any color that you have on that because it does seem like on the data, there's a lot of demand, there's some offset on -- maybe price pressure for the industry. And then on the tech side, just given some of the wins that you've had, is there anything lumpy like we've seen in the past? Or are the current wins, a lot of kind of small but continue to move the momentum in that business for the outlook? Just want to make sure we don't have the big moves in terms of the revenues per quarter?

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

Sure. Yes, I'll actually take that question first. So we don't not have another deal coming through like (inaudible) system will deal, that will take us -- do a step functioning to create some revenues. It is going to be much more of a steady build and climb as we implement and start to recognize revenues across new clients. And so it's not going to be lumpy like that. Is going to -- we just see a continued steady climb as we continue to implement the new client. Or new services to existing clients. In terms of the analytics, we actually are really excited about what we're doing in the data space right now. In terms of -- we've been working with several machine intelligence companies to look at our own data and then to introduce some interesting third-party content into the mix, where we could -- the way the analyst hub is probably going to work, as the client can choose just to take their third-party data, it's unusual data, data that's -- that they might want to integrate into their own models, but it's a very streamlined channel for them to get it, they have 1 contract with us, they have the ability to take this data in the formats they want, they can take whatever element of data that they want, you don't want to take it as like a full seed, it's super flexible. They also, if they want, can take the analytics that we built on top of it, where we're taking some of this third-party content, but using machine intelligence to match it up against our own trading and on order data to find potential signals in our market from that combination, and we can provide those analytics as well. So it's basically just the beginning, where we are -- we have several data feeds are coming in, and we're working with the machine intelligence companies to find the signals, but it is something where we believe that the buy-side, over time, as they continue to advance our quantitative models, will want to be able to have a myriad of third-parties to information that they can use either in our own models, or they might actually want us to deliver in analytics for them to helps them understand signals in the marketplace, so that's the purpose of the analytics hub. So then we do have some good early demands coming from some sell-side and buy-side clients actually, for the third-party data and for the analytics. But this, again, is a longer-term initiative for us. It's not something that will have an immediate impact in a meaningful way, in a business as large as the data business, but it will be something that we hope will continue to climb and develop into something significant for us over time.

Operator

Our next question is the follow-up from Alex Kramm with UBS.

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

Just real quick, just wanted to look at the cost base again. When I look at the expenses by segment hopefully my data is right here, but from the fourth quarter to the first quarter, I see significant step downs on Corporate Services, I think like $9 million or so, and then in Information Services by $6 million, but Market Services is just kind of like just slightly down, right? So not to get into too much detail here, but -- when I think about ISE acquisition and then synergies coming out there, I would assume a lot of Market Services. And then the Corporate Services stepped down, I mean I know you did some acquisitions that, but it's just I mean it's just like $36 million annualized quarter-over-quarter, so are you just ripping a ton of cost out there? Just maybe a little bit more color, why maybe on the segmented level, it looks a little bit surprising to me?

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

Sure. So I think that with Market Services, I would say, that Immediately after completing the acquisition of ISE and CXC last year, we had a lot of non-technology oriented synergy that we implemented, and we did that early, we did that I think decisively, and you saw the benefit of that last year, and that's coming to this year. This year, the incremental synergies and those deals are going to come from the technology implementation. We completed 1 in the first quarter on schedule, with great quality, and we're really, really proud of that. But until we continue to integrate the other 2 technology platforms, we won't see a material increase in the synergy opportunity until we basically have retired all of the ICE platforms at this stage. So that will likely come later in the year. In terms of the Corporate Solutions business, there are couple of things. Number one, there is cost that is related to revenue. So the fourth quarter is always our seasonal high in terms of revenue, always, but it also comes with costs in terms of sales commissions, in terms of actually delivery of services in the PR business and in the webcasting business. So as we have seasonally low, our first quarter tends to be seasonally lower in terms of some elements of the business, where there are direct costs associated with it. But also having said that, Stacey is doing a spectacular job of managing that business and managing the cost structure, as we've been looking at both the revenue opportunities and the revenue risk in that business and she does just a great job of managing expense base there. There is seasonal elements, though, to the expense base that is associated with different revenue outcomes for that business.

Michael Steven Ptasznik - *Nasdaq, Inc. - CFO and EVP of Corporate Strategy*

Just to expand a little bit on what Adena saying, part of the makeup of the business as well, it's obviously much more of a people-based business, and some of the reductions that we saw quarter-over-quarter related to compensation, so that's one of the key drivers as well. It's really much more people based than it is on the other side.

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

Yes, and now just maybe on the Corporate Services, does that mean though, when I look at, like deals in that business over time, that those are easy to buy and rip out the cost kind of opportunities? Or is this -- or is it really across the whole business? Or is Corporate Services is something where there are those opportunities, just buy revenue and take on a lot of cost? Or am I looking at the wrong thing here?

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

No, I would say depends on what we. Buy, so when it comes to a Marketwired and Boardvantage because those 2 businesses are literally exact replicas of what we're already doing, it's just a matter of us thinking about scale up. In existing businesses, there are a lot of synergies that come from that. And there's synergies across sale, service, operations and ultimately technology. The technology, of course, is the tail as we continue to implement the technology integration, but I do think that there are nice synergy opportunities. If we were to buy a company, however, that is expanding our capabilities and going into new things, there will be synergies associated with back office and administration and potentially sales, but we may not have as quite as many things in terms of technology and service. But that's -- but certainly the acquisitions we did last year were highly synergistic and quite intentional in that regard. I think that -- but generally speaking the -- it is definitely a more people-oriented business. So as you look at integrations, you can look at is as where can we save on infrastructure and people.

Operator

This concludes the Q&A session. I'd like to turn the call back over to Adena Friedman for closing remarks.

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

Okay, great. Well thank you all very much for all of your questions today. Obviously, we are really excited about how the business is performing and when and what we can do to continue to grow the business. And we look forward to speaking with you again next quarter.

Operator

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