



# AxiomSL Revenue Recognition Update

September 6, 2024

# Disclaimers

## **Non-GAAP Information**

In addition to disclosing results determined in accordance with U.S. GAAP, Nasdaq also discloses certain non-GAAP results of operations, including, but not limited to non-GAAP operating income, non-GAAP operating expenses and EBITDA that include certain adjustments or exclude certain charges and gains that are described in the reconciliation tables of U.S. GAAP to non-GAAP information provided at [ir.nasdaq.com/Income-Statement-Trend-Summary-and-GAAP-to-Non-GAAP-Reconciliation](http://ir.nasdaq.com/Income-Statement-Trend-Summary-and-GAAP-to-Non-GAAP-Reconciliation) and the appendix to the presentation. Management uses this non-GAAP information internally, along with U.S. GAAP information, in evaluating our performance and in making financial and operational decisions. We believe our presentation of these measures provides investors with greater transparency and supplemental data relating to our financial condition and results of operations. In addition, we believe the presentation of these measures is useful to investors for period-to-period comparisons of results as certain items do not reflect ongoing operating performance.

These measures are not in accordance with, or an alternative to, U.S. GAAP, and may be different from non-GAAP measures used by other companies. In addition, other companies, including companies in our industry, may calculate such measures differently, which reduces their usefulness as a comparative measure. Investors should not rely on any single financial measure when evaluating our business. This information should be considered as supplemental in nature and is not meant as a substitute for our operating results in accordance with U.S. GAAP. We recommend investors review the U.S. GAAP financial measures included in this presentation. When viewed in conjunction with our U.S. GAAP results and the accompanying reconciliations, we believe these non-GAAP measures provide greater transparency and a more complete understanding of factors affecting our business than U.S. GAAP measures alone.

We understand that analysts and investors regularly rely on non-GAAP financial measures, such as those noted above, to assess operating performance. We use these measures because they highlight trends more clearly in our business that may not otherwise be apparent when relying solely on U.S. GAAP financial measures, since these measures eliminate from our results specific financial items that have less bearing on our ongoing operating performance.

Pro forma: Pro forma results are presented assuming AxiomSL and Calypso were included in the prior year quarterly results. These results are not calculated in a manner consistent with the pro forma requirements in Article 11 of Regulation S-X. Pro forma growth excludes the impacts of foreign currency except for AxiomSL and Calypso, which are not yet calculated on an organic basis.

## **Cautionary Note Regarding Forward-Looking Statements**

Information set forth in this communication contains forward-looking statements that involve a number of risks and uncertainties. Nasdaq cautions readers that any forward-looking information is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking information. When used in this communication, words such as “believe,” “expects,” “enables,” “will,” “plans,” “pro forma,” “target,” “outlook,” “estimates,” and similar expressions and any other statements that are not historical facts are intended to identify forward-looking statements. Such forward-looking statements include, but are not limited to (i) projections relating to our future financial results, total shareholder returns, growth, dividend program, trading volumes, products and services, ability to transition to new business models or implement our new corporate structure, taxes and achievement of synergy targets, (ii) statements about the closing or implementation dates and benefits of certain acquisitions, divestitures and other strategic, restructuring, technology, environmental, de-leveraging and capital allocation initiatives, (iii) statements about our integrations of our recent acquisitions, (iv) statements about the accounting treatment of future events, including the accounting treatment of revenues associated with AxiomSL on-premises subscription contracts, (v) statements relating to any litigation or regulatory or government investigation or action to which we are or could become a party, and (vi) other statements that are not historical facts. Forward-looking statements involve a number of risks, uncertainties or other factors beyond Nasdaq’s control. These factors include, but are not limited to, Nasdaq’s ability to implement its strategic initiatives, economic, political and market conditions and fluctuations, geopolitical instability, government and industry regulation, interest rate risk, U.S. and global competition. Further information on these and other factors are detailed in Nasdaq’s filings with the U.S. Securities and Exchange Commission, including its annual reports on Form 10-K and quarterly reports on Form 10-Q which are available on Nasdaq’s investor relations website at <http://ir.nasdaq.com> and the SEC’s website at [www.sec.gov](http://www.sec.gov). Nasdaq undertakes no obligation to publicly update any forward-looking statement, whether as a result of new information, future events or otherwise.

## **Website Disclosure**

Nasdaq intends to use its website, [ir.nasdaq.com](http://ir.nasdaq.com), as a means for disclosing material non-public information and for complying with SEC Regulation FD and other disclosure obligations.

# Summary of Changes (page 1 of 2)

## Summary and Rationale

- As part of the process of finalizing the U.S. GAAP purchase accounting of the Adenza acquisition<sup>(1)</sup> mentioned on 2Q24 earnings, Nasdaq has implemented a change to the accounting treatment of the revenues associated with AxiomSL on-premises subscription contracts.
- The change reflects the frequent and ongoing mandatory updates to its regulatory reporting software, which are critical to the utility and value of the product for the client.
- As a result, Nasdaq determined that a ratable treatment of AxiomSL's subscription-based revenues over the contract term is a more appropriate and accurate reflection of these revenues.
  - Going forward, Nasdaq will recognize 100% of AxiomSL on-premises subscription revenue ratably (i.e. evenly) over the contract term, whereas Adenza previously recognized approximately 50% of AxiomSL's total contract revenue upfront and the remainder over the contract term.
  - This will impact the timing of revenue recognition for new on-premises sales and renewals: these contracts will generate less subscription revenue in the quarter in which they are signed or renewed but higher revenue in subsequent quarters relative to the prior accounting methodology.
  - The updated revenue recognition creates more visibility into the long-term financial and operational performance of AxiomSL as part of Nasdaq's Financial Technology segment, as revenue will more closely align with the annualized recurring revenue (ARR) and cash economics of AxiomSL on-premises subscription contracts going forward.

<sup>(1)</sup>This adjustment is within the measurement period of one year subsequent to the acquisition close, where filers are able, under applicable accounting standards, to make adjustments based on new information obtained that existed at the date of purchase.

# Summary of Changes (page 2 of 2)

## Timing and Additional Accounting Considerations

- Beginning in the third quarter of 2024, and going forward, Nasdaq's results will reflect the new accounting treatment.
- In our 3Q24 results, we will record a one-time, non-cash GAAP revenue reduction of \$32 million. This reduction reflects the net impact of the accounting change on AxiomSL subscription revenue since the date of the acquisition, November 1, 2023. The \$32 million net decrease consists of the following:
  - A decrease of \$34 million related to the November and December 2023 periods, which will be excluded from our Non-GAAP 3Q24 results.
  - Partially offset by a net increase of \$2 million related to the January through June 2024 period and reflecting a YTD cumulative adjustment.
- This change enhances Nasdaq's financial reporting as AxiomSL's revenues will more closely align with the ARR and cash economics of its on-premises subscription contracts. This change is specific to AxiomSL on-premises subscription revenues. There are no changes to professional services revenues or to AxiomSL's cloud-delivered subscription revenues, which are already recognized ratably over the life of the contract. This change also does not impact AxiomSL's historical ARR or cash flows.

# AxiomSL Revenue by Quarter

(U.S. \$ millions)	2Q24	1Q24	4Q23	3Q23	2Q23	1Q23	2023
<b>AxiomSL ARR - YoY Growth (UNCHANGED)</b>	<b>14%</b>	<b>16%</b>					
<b>AxiomSL Subscription Revenue</b>							
<i>AxiomSL Subs. Revenue - YoY Growth (Before Change)</i>	43%	25%					
<i>AxiomSL Subs. Revenue - YoY Growth (After Change)</i>	<b>14%</b>	<b>15%</b>					
<b>AxiomSL Total Revenue - Before Change</b>	<b>\$58</b>	<b>\$55</b>	<b>\$89</b>	<b>\$67</b>	<b>\$47</b>	<b>\$48</b>	<b>\$251</b>
<i>YoY growth</i>	23%	15%					
<b>AxiomSL Total Revenue - After Change<sup>(1)</sup></b>	<b>\$58</b>	<b>\$58</b>	<b>\$58</b>	<b>\$56</b>	<b>\$56</b>	<b>\$53</b>	<b>\$223</b>
<i>YoY growth</i>	4%	9%					

## Revenue growth trend comments:

- **2Q24:** +4% YoY revenue growth post-change is consistent with the comments provided at 2Q24 earnings that estimated revenue growth under ratable revenue recognition would have been in the low-to-mid-single digits with strong subscription revenue growth generally in line with ARR growth of +14% YoY. The strong subscription revenue growth in the quarter was partially offset by a timing and mix related YoY decline in professional services fees.
- **1Q24:** +9% YoY revenue growth post-change was driven by strong subscription revenue growth that was generally in line with ARR growth of +16%, partially offset by a timing and mix related YoY decline in professional services fees.

(1) These results have been updated to reflect the accounting change described on the Summary of Changes pages. All other results remain unchanged.

# Forward Looking Commentary

	<u>Medium-Term Growth Outlook - UNCHANGED<sup>1, 2</sup></u>	<u>2024 Forward Looking Commentary</u>
AxiomSL and Calypso combined	ARR: Mid teens Revenue: Low to mid teens	Unchanged; Maintain expectation for combined 2024 revenue and ARR growth to be consistent with these ranges.
Fin Crime Mgmt Technology	Mid 20s	N/A
Regulatory Technology	High single/low double digits	<ul style="list-style-type: none"> <li>– Regulatory Technology subscription revenue growth is expected to be generally in-line with ARR growth.</li> <li>– Regulatory Technology 2024 total revenue growth is expected to be towards the low-end of its medium-term revenue growth outlook due to negative growth in professional services fees for AxiomSL in 3Q24 and full-year 2024, with 2Q24 total revenue growth a trough and sequential improvements expected in year-over-year revenue growth in 3Q24 and 4Q24.</li> </ul>
Capital Markets Technology	High single/low double digits	Unchanged; Comments provided at 2Q24 still apply.
<b>Financial Technology</b>	<b>10-14%</b>	<b>N/A</b>
<b>Total Solutions Revenues</b>	<b>8-11%</b>	<b>N/A</b>
<b>Total Net Revenues</b>	<b>No outlook given</b>	<b>N/A</b>

<sup>1</sup> Over 3-5 years. Growth outlook assumes stable market backdrop.

<sup>2</sup> Low single digits >0% to 3%, mid single digits >3% to 7%, high single digits >7% to <10%; Low teens or low double digits 10% to 13%, mid teens >13% to 17%, high teens >17% to <20%; Low twenties 20% to 23%, mid twenties >23% to 27%, high twenties >27% to <30%.

# AxiomSL On-Premises Revenue Recognition: Before & After Change

## Example Contract Details\*:

**Total Contract Value (TCV):** \$12M

**Contract Length:** 3 years

**Annual Contract Value (ACV):** \$4M

**Contractual Ramp or Guaranteed Uplift:** None

**Contract Start Date:** January 1st of Year 1

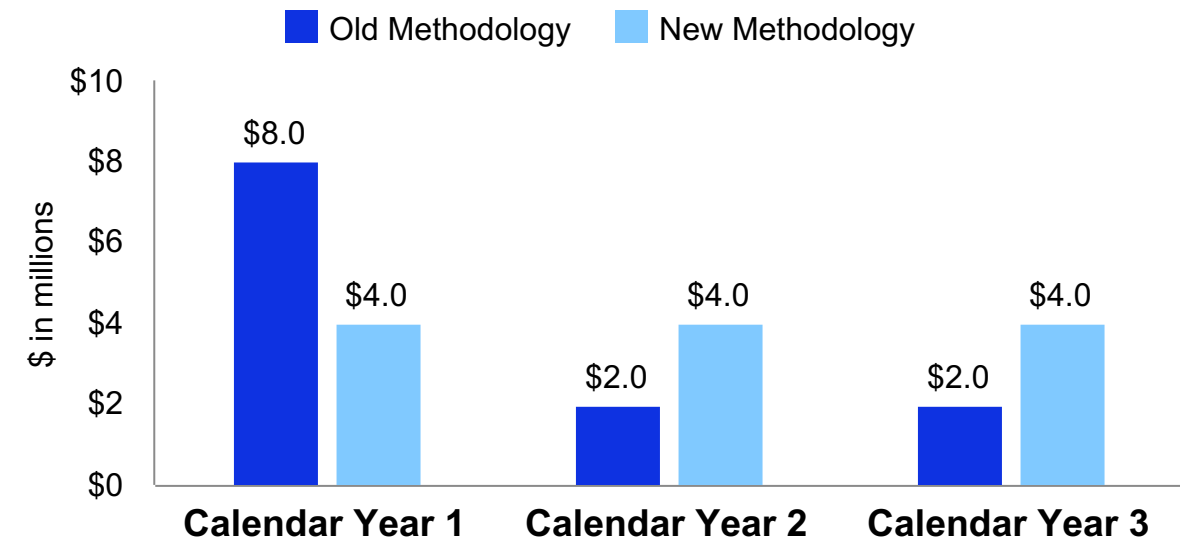
**Contract End Date:** N/A

## Key Takeaways:

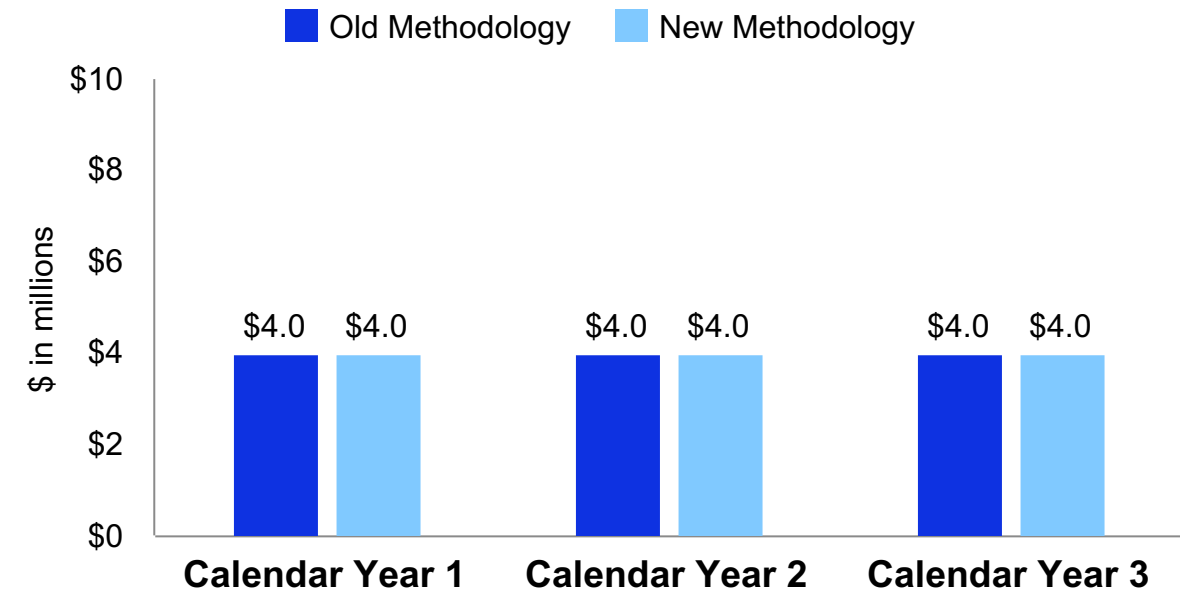
- Under the old methodology, ~50% of total contract value for an on-premises subscription contract would be recognized as revenue on the contract start date.
- Under the new methodology, revenue would be recognized ratably over the contract period.
- There is no change to ARR between the old and new methodologies.

\*Contract is illustrative therefore details are not intended to reflect characteristics of a Nasdaq client contract of any kind.

## Change in On-Premises Subscription Revenue Recognition



## No Change in On-Premises Subscription ARR



# Primary Factors Driving Differences Between Revenue & ARR Growth

- **Professional services:** ARR reflects the current annualized value derived solely from subscription contracts with a defined contract value. Overall revenue includes both subscription revenue as well as professional services revenue. See illustration of the impact of divergent growth rates on slide 5. Note, we had previously cited professional services revenue as roughly 20% of combined AxiomSL and Calypso revenue.
- **Contractual ramps or guaranteed uplifts:** Contracts with price increases or elimination of discounts embedded and agreed upon at the contract start date will see ARR change in future periods commensurate with the actualization of these changes. Meanwhile, revenue will equal the total contract value inclusive of these changes, divided by the contract life. See an example on slide 9.
- **Bookings linearity:** ARR reflects the current annualized value of a subscription contract commencing at the contract start date, while in-period revenue builds from the contract start date onwards. Therefore, year 1 revenue from contracts with the same exact terms, for example, can differ from one another let alone to ARR, depending on when the start date falls in a given period. See an example on slide 10.
- **Contract expiration or churn:** Once a contract expires, ARR related to that contract goes to zero, while revenue accrues for that contract in-period through the expiration date. See an example on slide 10 as well.



# Revenue vs. ARR: Contractual Ramp or Guaranteed Uplift

## Example Contract Details\*:

**Total Contract Value (TCV):** \$12M initial; \$14.25M renewal

**Contract Length:** 3 years both for initial & renewal

**Annual Contract Value (ACV):** \$4M initial; \$4.75M renewal

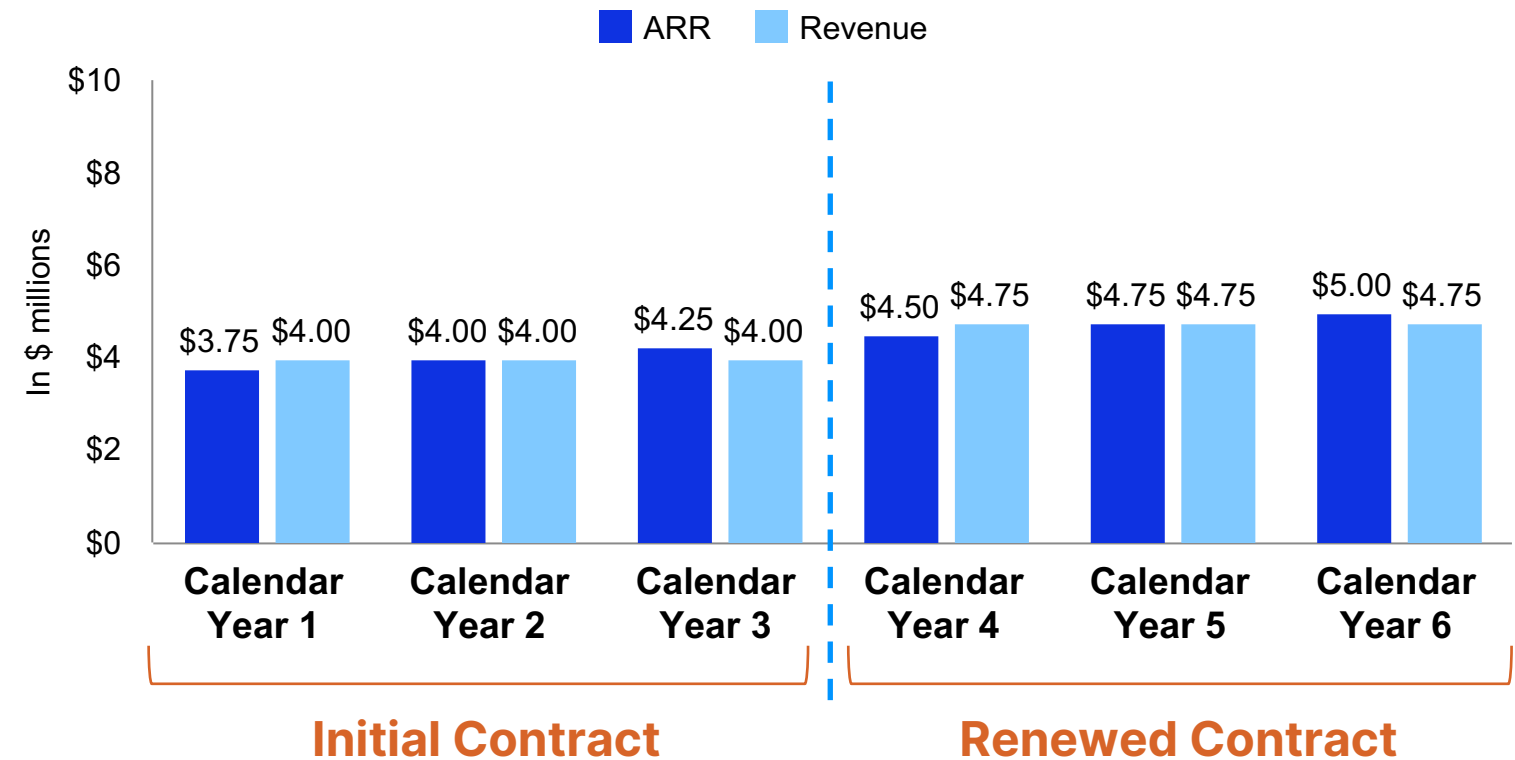
**Contractual Ramp or Guaranteed Uplift:** +\$0.25M / year

**Contract Start Date:** January 1st of Year 1 for initial;  
January 1st of Year 4 for renewal

**Contract End Date:** N/A

## Key Takeaways:

- The base year (i.e., Calendar Year 1) billing amount is \$3.75M with contractually agreed upon annual increases of \$0.25M. The amounts billed equal ARR in both the initial and renewed contract term.
- The initial TCV, contract length, and ACV, remain unchanged. Annual revenue for the initial contract term equals the initial contract ACV of \$4.0M and \$4.75M for the renewed contract.
- In this example, year-over-year revenue growth only occurs in the first year of renewal (i.e., year 4), while ARR growth (in \$) is consistent with the contractual ramp of \$0.25M annually.



(in \$ M)	Calendar Year 1	Calendar Year 2	Calendar Year 3	Calendar Year 4	Calendar Year 5	Calendar Year 6
<b>ARR</b>	\$3.75	\$4.00	\$4.25	\$4.50	\$4.75	\$5.00
YoY growth (%)	N/A	7 %	6 %	6 %	6 %	5 %
<b>Revenue</b>	\$4.00	\$4.00	\$4.00	\$4.75	\$4.75	\$4.75
YoY growth (%)	N/A	0 %	0 %	19 %	0 %	0 %

\*Contract is illustrative therefore details are not intended to reflect characteristics of a Nasdaq client contract of any kind.

# Revenue vs. ARR: Bookings Linearity & Contract Expiration or Churn

## Example Contract Details\*:

**Total Contract Value (TCV):** \$12M

**Contract Length:** 3 years

**Annual Contract Value (ACV):** \$4M

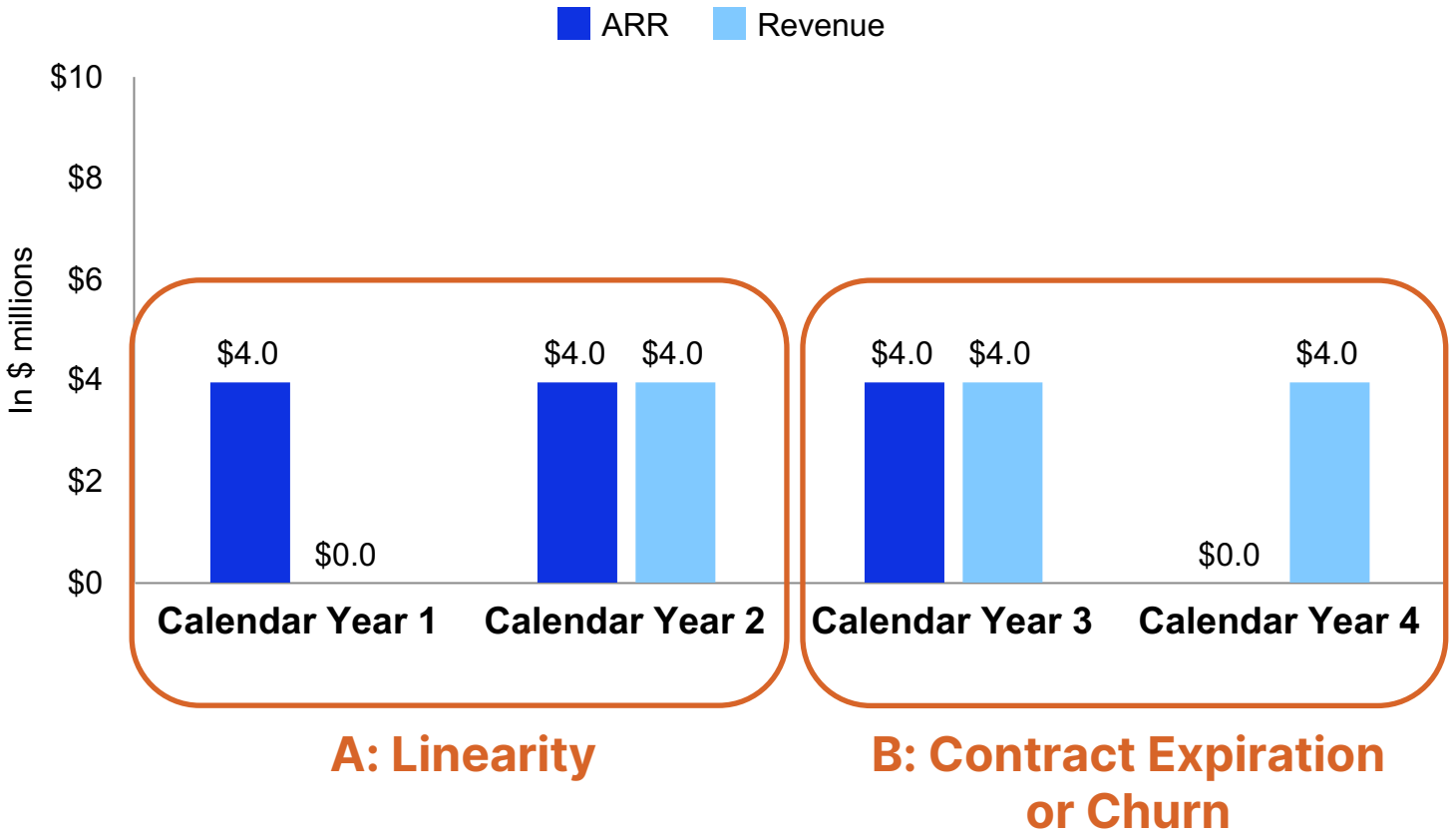
**Contractual Ramp or Guaranteed Uplift:** None

**Contract Start Date:** December 30th of Year 1 **A**

**Contract End Date:** December 30th of Year 4 **B**

## Key Takeaways:

- As seen in Calendar Years 1 & 2, the timing of bookings can create significant differences between revenue and ARR, thereby period-to-period growth rates.
- As seen in Calendar Year 4, contract expiration creates divergence in revenue and ARR, thereby period-to-period growth rates.
- Annual revenue from the contract start date onwards (rather than Calendar Year revenue) equals ACV.



\*Contract is illustrative therefore details are not intended to reflect characteristics of a Nasdaq client contract of any kind.

# Appendix

## **Why doesn't this change apply to Calypso?**

- The AxiomSL support and maintenance includes regulatory updates that are critical and affect the utility of the license on a highly frequent basis. At this point, the software updates for Calypso are not required to be installed as frequently by clients as they do not have as significant of an impact on the overall utility and functionality of the software.

## **Is Nasdaq reviewing other revenue recognition or accounting rules from either AxiomSL or Calypso?**

- Nasdaq is still within the one-year post-deal measurement period during which it can make adjustments but does not have any further announcements at this time.

## **How will this change affect your tax rate and cash tax payments?**

- Nasdaq does not expect a change to its overall tax rate.
- There is also no cash tax impact.

## **What is the impact to the balance sheet of this change?**

- Nasdaq will record a net adjustment of approximately \$32 million to the opening balance sheet. This adjustment relates to the contracts entered into prior to the acquisition date for the impact of changing from upfront to ratable for AxiomSL on-premises contracts, and primarily decreases accrued income (which reflects revenue earned but not yet billed) and increases deferred revenue, mostly offset by an increase in goodwill, net of deferred tax assets.

# Pro Forma Revenue Post-Change

<i>Net Revenues (U.S.\$ millions)</i>	2Q24	1Q24	4Q23	3Q23	2Q23	1Q23	2023
Data and Listing Services	\$ 187	\$ 186	\$ 189	\$ 188	\$ 187	\$ 185	\$ 749
Workflow and Insights	127	125	126	124	122	120	493
Index	167	168	146	144	129	110	528
Capital Access Platforms	481	479	461	456	438	415	1,770
Financial Crime Technology Management	67	64	60	58	54	52	223
Regulatory Technology <sup>(1)</sup>	95	93	94	91	91	85	361
Capital Markets Technology	258	238	255	216	228	223	921
Financial Technology <sup>(1)</sup>	420	395	409	365	373	360	1,505
Solutions <sup>(1)</sup>	901	874	870	821	811	775	3,275
Market Services	250	237	247	236	242	260	987
Other	8	9	10	10	10	10	39
<b>Total<sup>(1)</sup></b>	<b>1,159</b>	<b>1,120</b>	<b>1,127</b>	<b>1,067</b>	<b>1,063</b>	<b>1,045</b>	<b>4,301</b>

<i>Reclassified Pro Forma Regulatory Technology Revenue</i>	2Q24	1Q24	4Q23	3Q23	2Q23	1Q23	2023
<i>(U.S.\$ millions)</i>							
<b>Regulatory Technology - Reported</b>	\$ 95	\$ 90	\$ 125	\$ 102	\$ 82	\$ 80	\$ 389
Adjustment	—	3	(31)	(11)	9	5	(28)
<b>Regulatory Technology - Reclassified<sup>(1)</sup></b>	<b>95</b>	<b>93</b>	<b>94</b>	<b>91</b>	<b>91</b>	<b>85</b>	<b>361</b>

Pro forma: Pro forma results are presented assuming AxiomSL and Calypso were included in the prior year quarterly results. These results are not calculated in a manner consistent with the pro forma requirements in Article 11 of Regulation S-X. Pro forma growth excludes the impacts of foreign currency except for AxiomSL and Calypso, which are not yet calculated on an organic basis.

<sup>(1)</sup>These results have been updated to reflect the accounting change described on the Summary of Changes page. All other results remain unchanged.

Note: The sum of the quarters may not equal the full year totals due to rounding.

# Updated Non-GAAP Pro Forma Operating Income, EBITDA & Margin

<i>(U.S.\$ millions)</i>	2Q24	1Q24	4Q23	3Q23	2Q23	1Q23	2023
<b>Capital Access Platforms</b>							
Net revenues	\$ 481	\$ 479	\$ 461	\$ 456	\$ 438	\$ 415	\$ 1,770
Expenses	210	200	210	202	197	190	799
Operating income	271	279	251	254	241	225	971
Operating Margin	56 %	58 %	54 %	56 %	55 %	54 %	55 %
<b>Financial Technology</b>							
Net revenues <sup>(1)</sup>	420	395	409	365	373	360	1,505
Expenses	221	216	207	208	205	204	822
Operating income <sup>(1)</sup>	199	179	202	157	168	156	683
Operating Margin <sup>(1)</sup>	47 %	45 %	49 %	43 %	45 %	43 %	45 %
<b>Market Services</b>							
Net revenues	250	237	247	236	242	260	987
Expenses	104	104	105	100	99	99	405
Operating income	146	133	142	136	143	161	582
Operating Margin	58 %	56 %	57 %	58 %	59 %	62 %	59 %
<b>Other</b>							
Net revenues	8	9	10	10	10	10	39
Expenses	4	4	5	4	6	6	21
Operating income	4	5	5	6	4	4	18
<b>Total</b>							
<b>Net revenues<sup>(1)</sup></b>	<b>1,159</b>	<b>1,120</b>	<b>1,127</b>	<b>1,067</b>	<b>1,063</b>	<b>1,045</b>	<b>4,301</b>
Expenses	539	524	527	514	507	499	2,047
<b>Operating income<sup>(1)</sup></b>	<b>620</b>	<b>596</b>	<b>600</b>	<b>553</b>	<b>556</b>	<b>546</b>	<b>2,254</b>
<b>Operating Margin<sup>(1)(2)</sup></b>	<b>53 %</b>	<b>53 %</b>	<b>53 %</b>	<b>52 %</b>	<b>52 %</b>	<b>52 %</b>	<b>52 %</b>
<b>EBITDA<sup>(1)</sup></b>	<b>651</b>	<b>628</b>	<b>631</b>	<b>583</b>	<b>586</b>	<b>575</b>	<b>2,375</b>
<b>EBITDA Margin<sup>(1)(2)</sup></b>	<b>56 %</b>	<b>56 %</b>	<b>56 %</b>	<b>55 %</b>	<b>55 %</b>	<b>55 %</b>	<b>55 %</b>

<sup>(1)</sup>These pro forma results have been updated to reflect the accounting change described on the Summary of Changes page. All other results remain unchanged.

<sup>(2)</sup>Updated 2023 pro forma operating margin and EBITDA margin of 52% and 55%, respectively, are 30 bps lower than the pre-change 2023 pro forma margins.

Note: The sum of the quarters may not equal the full year totals due to rounding.

# Updated AxiomSL & Calypso 2023 Financial Results by Quarter

(U.S. \$ millions)	4Q23	3Q23	2Q23	1Q23	2023
AxiomSL <sup>(1)</sup>	\$ 58	\$ 56	\$ 56	\$ 53	\$ 223
Calypso	101	71	82	78	332
<b>Total revenues<sup>(1)</sup></b>	<b>159</b>	<b>127</b>	<b>138</b>	<b>131</b>	<b>555</b>
GAAP operating expenses	87	107	111	104	409
<b>GAAP operating income<sup>(1)</sup></b>	<b>72</b>	<b>20</b>	<b>27</b>	<b>27</b>	<b>146</b>
GAAP operating margin <sup>(1)</sup>	45%	16%	20%	21%	26%
Non-GAAP operating expenses <sup>(2)</sup>	58	65	66	63	252
<b>Non-GAAP operating income<sup>(1)(2)</sup></b>	<b>101</b>	<b>62</b>	<b>72</b>	<b>68</b>	<b>303</b>
Non-GAAP operating margin <sup>(1)(2)</sup>	64%	49%	52%	52%	55%

(1) These results have been updated to reflect the accounting change described on the Summary of Changes page. All other results remain unchanged.

(2) The results above are presented on a non-GAAP basis and have been adjusted for certain items. We believe presenting these measures excluding these items provides investors with greater transparency as they do not represent ongoing operations. These adjustments include the following: Non-GAAP operating expenses excludes intangible amortization of \$39 million in each of the first three quarters of 2023 and \$13 million in the fourth quarter of 2023. In addition, other transaction related and restructuring related costs of \$2 million for the first quarter, \$6 million for the second quarter, \$3 million for the third quarter, and \$16 million for the fourth quarter of 2023 have been excluded.

# Defined Terms

**ARR:** ARR for a given period is the current annualized value derived from subscription contracts with a defined contract value. This excludes contracts that are not recurring, are onetime in nature, or where the contract value fluctuates based on defined metrics. ARR is currently one of our key performance metrics to assess the health and trajectory of our recurring business. ARR does not have any standardized definition and is therefore unlikely to be comparable to similarly titled measures presented by other companies. ARR should be viewed independently of revenue and deferred revenue and is not intended to be combined with or to replace either of those items. For AxiomSL and Calypso recurring revenue contracts, the amount included in ARR is consistent with the amount that we invoice the customer during the current period. Additionally, for AxiomSL and Calypso recurring revenue contracts that include annual values that increase over time, we include in ARR only the annualized value of components of the contract that are considered active as of the date of the ARR calculation. We do not include the future committed increases in the contract value as of the date of the ARR calculation. ARR is not a forecast and the active contracts at the end of a reporting period used in calculating ARR may or may not be extended or renewed by our customers.

**EBITDA:** Non-GAAP Net Income adjusted for interest, taxes and depreciation.

**Net Revenues:** Revenues less transaction-based expenses.

**Pro forma:** Pro forma results are presented assuming AxiomSL and Calypso were included in the prior year quarterly results. These results are not calculated in a manner consistent with the pro forma requirements in Article 11 of Regulation S-X. Pro forma growth excludes the impacts of foreign currency except for AxiomSL and Calypso, which are not yet calculated on an organic basis.

**Solutions:** Revenues from our Capital Access Platforms and Financial Technology segments.



## *For Additional Investor Relations Information*

**Investor Relations Website:**

<http://ir.nasdaq.com>

**Investor Relations Contact:**

Ato Garrett

Senior Vice President, Investor Relations

[ato.garrett@nasdaq.com](mailto:ato.garrett@nasdaq.com)