

Valuation Thesis

Nasdaq offers steady growth, modest margin expansion, strong free cash flow, and a much better balance sheet over the next three years. The stock does not screen as cheap on near-term earnings, but the business merits a premium to more cyclical exchange peers. Revenue quality is improving, leverage is falling, and earnings growth remains intact.

Model Commentary

Revenue

Total revenue grows from \$8.26bn in 2025A to \$9.65bn by 2028E, a 5.3% CAGR. The main drivers are the technology segments. Market Services, Nasdaq's exchange business, grows at 2% annually and reaches \$4.47bn in 2028E from \$4.21bn in 2025A. That business remains stable and cash generative, but we would not say it is not the growth driver in the model.

Capital Access Platforms and Financial Technology together account for \$3.99bn in 2025A revenue and grow to \$5.12bn by 2028E, a 9% three-year CAGR. Index is the highest-quality revenue stream in the model. It scales with passive AUM benchmarked to Nasdaq indices: revenue rises from \$827M in 2025A to \$918M, \$1.01bn, and \$1.10bn over the forecast at assumed growth of 11%, 10%, and 9%. Capital requirements are low and incremental margins are high. Growth here depends more on AUM growth than on incremental investment.

Financial Crime Management Technology is the key swing factor in the near term. We model 15% growth in 2026E, followed by 13% and 12%, which takes revenue to \$482M by 2028E from \$331M in 2025A. The structural case is credible: proprietary transaction data and typology models should be hard to replicate. The open question is how much of that growth comes from new logos versus expansion within existing clients. That split matters for durability, and we would push management for better bookings disclosure as the segment becomes more material.

Capital Markets Technology grew from \$1.09bn to \$1.41bn over the period at 10%, 9%, and 8% annually. The model assumes gradual deceleration rather than acceleration, which fits the current bookings evidence.

Margins & Earnings

EBITDA margin expands 90bps over the forecast period, from 37.1% in 2025A to 38.0% in 2028E. The path is gradual: 37.5%, 37.8%, and 38.0%. The driver is mix shift, not cost action. Operating income grows from \$2.43bn to \$2.98bn over the period, a 7.0% CAGR.

The tax rate is the main drag below EBIT. We model 18.4% in 2026E, up 170bps from the 2025A effective rate of 16.7%, then 19.3% in 2027E and 2028E. That assumption is why net income grows more slowly than EBIT over the forecast. EPS reaches \$3.26 in 2026E, \$3.53 in 2027E, and \$3.84 in 2028E, a 27% cumulative increase from the 2025A base of \$3.03. A 0.5% annual decline in diluted share count provides modest support.

Cash Flow & Deleveraging

Free cash flow of \$1,989M in 2025A grows to \$2,274M, \$2,422M, and \$2,583M across 2026E-2028E. Capex stays near 3% of sales throughout, with no step-up in investment and no assumed efficiency windfall. Net debt falls from \$8.71bn in 2025A to \$6.44bn, \$4.02bn, and \$1.43bn in successive years. The bridge is straightforward: almost all free cash flow above the assumed cash build, from \$814M to \$1.1bn over four years, goes to debt reduction.

The leverage profile changes the equity story. Net debt/EBITDA falls from 2.84x in 2025A to 1.97x in 2026E, 1.16x in 2027E, and 0.39x in 2028E. A business at sub-0.5x leverage with more than \$2.5bn of annual FCF has clear capital allocation flexibility. The model does not assume buybacks or M&A, so any upside from those decisions sits outside the base case. If management starts returning more capital in 2027 or 2028, the EPS path would improve.

Valuation Commentary

At the current price of \$86.47, NDAQ trades at 26.5x 2026E earnings, 24.5x 2027E earnings, and 22.5x 2028E earnings. On EV/EBITDA, the stock trades at 17.2x in 2026E, 15.4x in 2027E, and 13.8x in 2028E. EV/FCF declines from 24.7x to 19.6x over the same period as earnings grow and net debt falls.

A 26.5x forward P/E is not cheap. The cash flow view is better. The 2025A FCF yield on market cap is 4.0%, rising to 4.6% in 2026E, 4.9% in 2027E, and 5.2% in 2028E. That gap versus the earnings multiple reflects strong cash conversion.

ROE falls from 14.3% in 2025A into the low teens over the forecast as equity builds faster than net income. That is a direct result of deleveraging, not weaker operating returns. Operating ROE stays in the high teens throughout at 18.5%, 17.3%, and 16.3% in 2026E-2028E. The spread between the two widens as leverage falls and equity accumulates.

On a quality-adjusted basis, Nasdaq should trade above pure exchange operators. Those businesses are more volume sensitive, less recurring, and structurally lower quality. The more relevant comparison set is financial data and technology platforms, where 20-25x forward earnings is more common for businesses with similar revenue quality and growth.

The model does not require a re-rating to support a satisfactory return. At 22.5x 2028E EPS of \$3.84, the stock still sits at \$86.47 after three years of EPS growth. A modest re-rating helps, but it is not required. For example, 24x 2028E EPS implies a value of about \$92 without relying on more aggressive revenue assumptions.