

Nasdaq's expansion into the fintech space coincides with industrywide evolution

Article

The news: Nasdaq has continued to strategically **expand** from its traditional stock exchange role by acquiring Adenza, a financial software company.

- This move aims to broaden Nasdaq's solutions into financial tech by offering its customers comprehensive risk management and regulatory compliance tools.

The trend: Nasdaq's decision corresponds with a growing industrywide trend in which **companies seek to broaden their revenue streams by offering products that branch outside of their everyday offerings.**

- For example, Google Cloud has partnered with **Moody's** to deliver a new financial data analysis solution that combines generative AI and proprietary data sets.
- **Experian** recently launched a digital checking account designed to help customers to improve their Experian-based credit score.

And conversely, some "fins" are leading the way into the "tech" space.

- JPMorgan and Morgan Stanley both offer chatbots that give investment guidance or documentation.

What's behind the shifts? Ever-evolving regulatory demands and a volatile economic environment have left many companies with insufficient revenue from their primary lines of business.

- Nasdaq's drive to find alternative revenue sources has intensified after the 84% decline in IPOs in 2022.
- The stock-exchange-company-turned-fintech wants to reduce its dependence on market fluctuations by diversifying into software and tech-oriented financial services, with a focus on long-term contracts that offer a reliable revenue stream.
- After the March banking crisis, Nasdaq implied that its purchase of Adenza was justified by financial institutions' need for Adenza's software to ensure compliance.

Will Nasdaq's expansion pay off? The company significantly increased its debt levels to complete this acquisition, and shareholders are concerned.

- After the deal was announced in June, Nasdaq's stock price dropped 12%.
- The deal's valuation of Adenza at nearly 18 times its projected 2023 revenue has raised eyebrows among investors, leading to questions about the justification for such a high price tag.

- The agreement gives Adenza’s creator, **Thoma Bravo**, a 14.9% stake in Nasdaq, making the private equity firm one of Nasdaq’s biggest shareholders, which may make other shareholders wonder about its influence over Nasdaq’s strategies.
- Analysts say that higher-than-usual amounts of debt weaken Nasdaq’s financial risk profile.

Key takeaways: Nasdaq did what it had to do—in the face of evolving market dynamics and escalating challenges, companies are forced to explore innovative avenues to sustain profitability and relevance.

- Its diversification mirrors what’s happening across various sectors, especially within industries sensitive to market fluctuations like finance and technology.
- As economic uncertainties persist and regulatory landscapes continue to evolve, more companies will follow suit and similarly expand their offerings.

Generative AI Software Revenue Growth Worldwide, by Category, 2023-2028

CAGR



Source: S&P Global Market Intelligence as cited in press release, June 8, 2023

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