Yale SOM

The Nasdaq Stock Market Inc.

Caleb Dexter: 917-407-4271 Ehsan Arma: 310-575-0021

Recommendation: SELL Closing Price (12/14/07): $46.75
Report Date: December 14, 2007 12 Months Target Range**:** $34.00 - $40.00

Investment Thesis

We believe the long term outlook for Nasdaq is negative due to the decrease of shareholder value likely to result from Nasdaq's recent three-way deal with Borse Dubai and Scandinavian exchange operator OMX AB. In order for Nasdaq to break even on the acquisition, it would need to achieve cost savings of $150M annually in addition to seeing year-over-year sales growth averaging 16% for itself and 12% for OMX AB over the next 10 years. We believe such growth may be hard to attain, and foresee Nasdaq's share price declining as investors digest the expense of the OMX AB acquisition. However, a risk to this call is the possibility that revenue and income might temporarily increase over the next three to four quarters due to greater market volume stemming from worries over looming adjustable-rate mortgage resets. Based on fundamental analysis, however, we believe Nasdaq's current market price requires excessively optimistic synergy and growth assumptions to be warranted, leading to a recommendation of SELL.

Points of Consideration

- Nasdaq currently derives 89% (YTD-3rd quarter 2007) of its revenue from its Market Services division, and 86% of its Market Services division's revenues are derived from executing trades on its exchange, meaning three quarters of Nasdaq's revenue come from operating its exchange. Long term prospects for this business model are unfavorable, as barriers to entry are minimal and there is little scope for value-addition in the course of operations (though Nasdaq is taking steps to create new lines of business to partially offset the future weakening of its trading business).
- The SEC's nationally mandated Regulation National Market System (RNMS), which saw its final phase implemented in October, should drive business away from traditional and "hybrid" exchanges such as the New York Stock Exchange and to the Nasdaq in the short term by requiring exchanges to provide equal access to prices and to execute trades at the lowest cost. In the long term, however, the RNMS diminishes the appeal to brokers of Nasdaq's access to scale, likely putting downward pressure on Nasdaq's margins.
- The short-term benefit of the above, however, is probably insufficient to make up for the fact that Nasdaq likely overpaid for OMX AB and for its one-third stake in Borse Dubai's Dubai International Financial Exchange (DIFX). In order for the deal to be accretive, a 100% stake in OMX AB and a 33% stake in DIFX would have to have a combined value of $3.7B, just 25% lower than Nasdaq's current market cap, despite having only about 1/4th as many listed companies.

Nasdaq's Revenue Drivers and Domestic Growth Strategy

Business Structure

The Nasdaq Stock Market Inc. is made up of two business segments: (1) Market Services, and (2) Issuer Services:

— Market Services

The Market Services segment is composed of Nasdaq's transaction-based business and its market information services business. The Nasdaq's transaction-based platform allows its market participants to access, process, display and to integrate orders and quotes, as well as enabling customers to execute trades in equity securities and ETFs (Exchange Traded Funds). Nasdaq also generates revenues by providing different levels of quote and trade information to market participants and data vendors. In 2006, Market Services revenues represented 84.9% of Nasdaq's total revenues[1].

— Issuer Services

The Issuer Services segment includes the Company's securities listings business, insurance business, shareholder services and its financial products business. Nasdaq also develops and licenses financial products and derivatives based on Nasdaq indexes such as QQQ, an ETF based on the Nasdaq-100 Index. In addition, Nasdaq generates revenues through licensing and listing third-party structured products such as ETFs. In 2006, Issuer Services accounted for 15.1% of Nasdaq's total revenues.

Nasdaq is pursuing a double track growth strategy. These are (i) expansion of its exchange operation, and (ii) offering a broader range of product and services to its customer base. Such expansion has allowed Nasdaq to grow its asset base handsomely over the past couple of years.

Source: Capital IQ

[1] Onesource, 12/03/2007

(i) Expansion of Exchange Operations

The focus of Nasdaq's domestic growth strategy is to expand its operational platform as an exchange and to gain additional exposure throughout the US. This strategy would boost the revenue-generating basis for the company and would allow the company to expand at both fronts of its operations; Market Services and Issuer Services. Given that over 95% of the firm's revenue comes from the US, this move can further enhance its current structure.

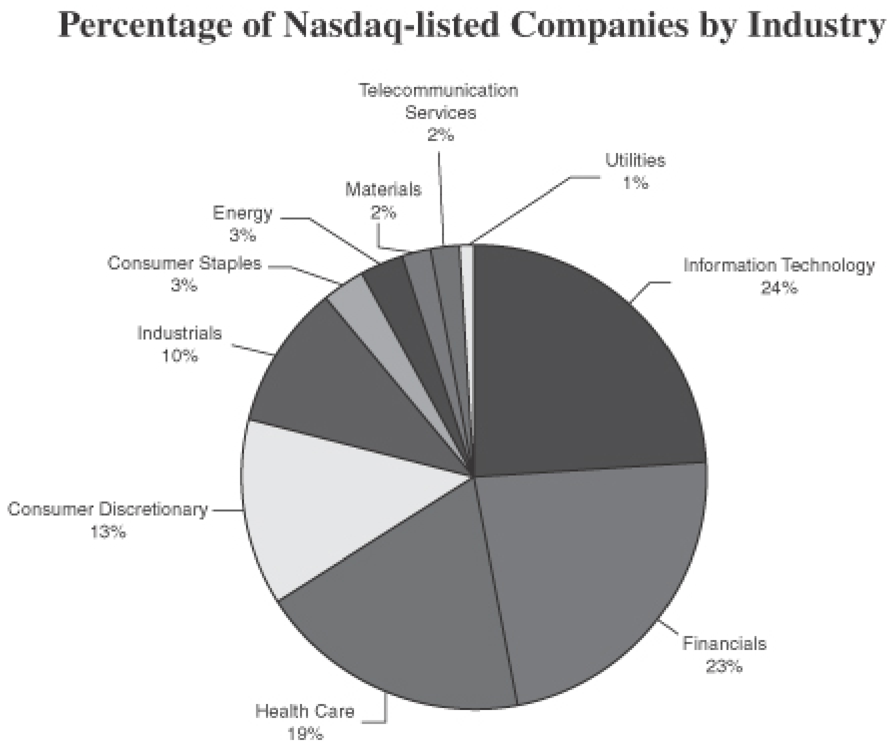
Source: Capital IQ

In line with this strategy, Nasdaq has offered to acquire Boston Stock Exchange (BSE) and Philadelphia Sock Exchange (PHLX) for $61M and $652M in cash, respectively.
By pursuing such a strategy, the company is trying to consolidate within the US market. It already dominates the US securities market with respect to new issues. In 2006, Nasdaq was able to capture a 67% of all eligible IPO's in the US market and raised $17.4B in the process.[2] Nasdaq appears to be maintaining its market leadership within the US market nicely.

(ii) A Broader Range of Products and Services

Nasdaq is building up its current product line, increasing the number of its ETFs, and entering new markets. In 2007, Nasdaq launched a new market to expand the trade volume and to attract new potential traders for its ETF and ILN (Index Linked Notes) products.[3]

[2] Nasdaq Annual Report, 2006
[3] Onesource, 10/04/2007



Source: Nasdaq 10-K, 2006

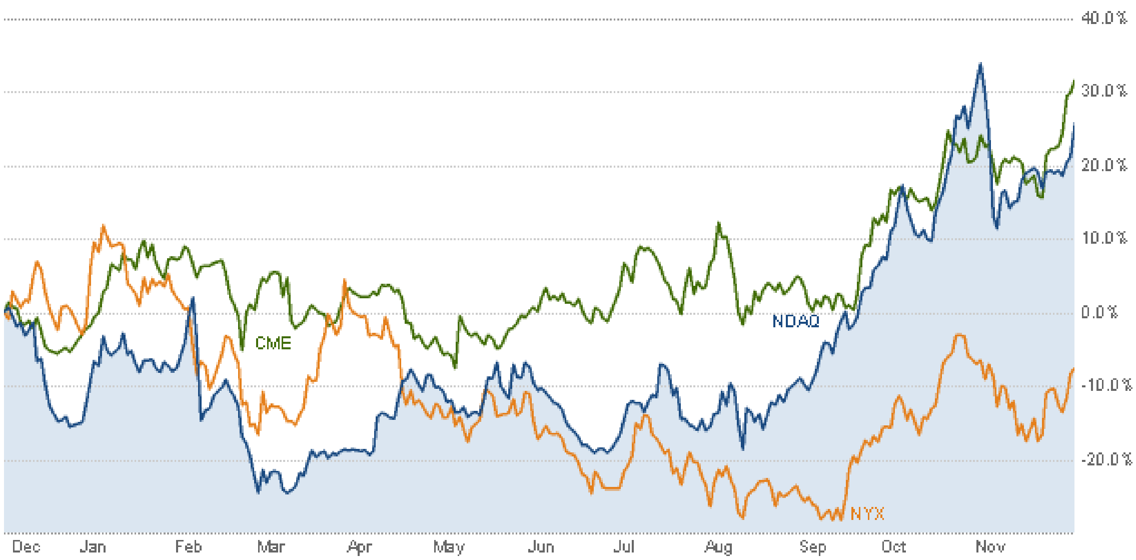
On another front, Nasdaq is trying to enter the options market (which was widely perceived to be the rationale behind Nasdaq's purchase of PHLX). Through a partnership with a group of banking institution, Nasdaq is launching a market for 144A trading. This is an alternative market which allows public companies to raise money directly from institutional investors rather than going through the procedural burdens or costs of a secondary offering. Nasdaq is also pushing to launch its own options market. It is trying to leverage the core strength of its technology and connectivity at a time when the SEC is pushing for trading option prices in pennies rather than in nickels. In this shift of pricing, Nasdaq has the most to gain due to its technological comparative advantage. We believe through the above initiatives that Nasdaq will likely be able to safeguard its market position and perhaps even enhance its short-term growth in the domestic market. Ultimately, however, market dynamics seem poised to make trouble for Nasdaq in the long run.

Regulation National Market System

The Regulation NMS is a mandate from the SEC the aim of which is to make market access and trade executions more transparent and efficient for market participants. This regulation also seeks to change the structure of the market and to modernize the existing national market system. The main points of the Regulation NMS are: (1) new order protection rule which imposes restrictions on current order routing systems, (2) new access rule to promote fair and non-discriminatory access to quotations displayed by NMS trading centers; and the remaining points which are not within the focus of this paper are: (3) new sub-penny rule, (4) amendment to market data rules and (5) reorganization of existing Exchange Act rules.[4]

—Taking Market Share from NYSE

Nasdaq structurally is poised to gain the most out of these regulatory changes at the expense of the NYSE, at least in the short term. In the fourth quarter of 2006, Nasdaq's total market share of NYSE-listed securities increased to 31%, compared to 20% a year earlier. Nasdaq was able to bring over to its exchange a group of NYSE-listed companies with a total market cap of $34B.[5] Such changes in market dynamics seem to be reflected in the various exchanges' share prices.



Source: Reuters

But these regulatory changes such as Regulation NMS are double-edge swords. In the short run, Nasdaq will benefit from these sorts of regulatory changes. But in the long run, the existing ECNs (Electronic Communications Networks) and the entrance of smaller firms into the market and into the trade execution and market information segments will put downward pressure on Nasdaq's market share and profit margins. It is the belief of the authors that, in the end, a trade execution is nothing but a commodity product, and will ultimately have a margin reflecting that fact.

—The ECNs V. the Exchanges

ECNs came around as a way of bringing more efficiency to the trade execution market by eliminating the middle man in the trading process and aimed to bring buyers and sellers directly together. The ECNs' trading platforms and quote systems (the ECNs' order books) are more advantageous to the ones of Nasdaq or NYSE because the investors can observe the entire pool of liquidity and not just the

[4] http://www.sec.gov/rules/final/34-51808.pdf
[5] Nasdaq Annual Report, 2006

best bid and offer. During the first few years of 2000s, ECNs' operations were on a much smaller scale than those of the OTC Market (over the counter) and exchanges. For example, as of 2003, about 85% of the NYSE-listed stocks were traded on the NYSE's floor.[6] But as the ECNs' operation grew further, they became a threat to both Nasdaq and NYSE. In 2005, Nasdaq and NYSE decided that the time was ripe to consolidate within the ECNs' field. Nasdaq and NYSE took over trading platforms of Instinet, the largest ECN around, and Archipelago Exchange, respectively. Through these acquisitions, NYSE and Nasdaq accomplished two ends: one, they eliminated smaller competitors that posed to be a future threat; and two, they took hold of a cutting edge technological platform which helped them to strengthen their foothold and to maintain their niche within the trade execution sector.

NASDAQ's Acquisitions Strategy

—Investment in the London Stock Exchange (LSE)

In late 2006, Nasdaq attempted to take over the London Stock Exchange (LSE).[7] Nasdaq owned about 29% of the company as of April 2006. In December 2006, it launched a hostile take-over bid of $5.3B to acquire a majority ownership in LSE, which the LSE management rejected. Ultimately, the tender offer was resisted by LSE's shareholders and it failed to take place.

—Proposed Transaction with Borse Dubai and OMX

After Nasdaq abandoned its bid for the LSE, it attempted to acquire Scandinavian and Baltic exchange OMX AB. Later, Borse Dubai started to acquire shares of OMX jointly with Nasdaq. In September 2007, the three parties announced they had reached an agreement. In essence, Nasdaq would sell its 29% stake in the London Stock Exchange (LSE) to Borse Dubai for $1.6B. Nasdaq would give Borse Dubai $1.9B (which it plans to acquire through a $2.2B "credit facility" [i.e., loan]) and 60.6M shares of Nasdaq stock for 100% ownership of OMX AB. Nasdaq would also give Borse Dubai $50M for a 1/3rd stake in Borse Dubai-owned Dubai International Financial Exchange (DIFX). When the dust settles, Borse Dubai will own 28% of Nasdaq, Nasdaq will own 100% of OMX AB, Nasdaq will own 33% of DIFX (with Borse Dubai holding on to the other 67%), and Borse Dubai will own 29% of LSE.

This is a complicated series of arrangements, and it is our belief that they should not be viewed as discrete, separate transactions, but rather as one mega deal – one that does poorly by Nasdaq.

By Nasdaq's own reckoning, the combined value of the $1.9B and 60.6M shares of stock it will give to Borse Dubai in exchange for sole ownership of OMX AB is $4.2B.[8] This implies a value of $37.50 per share of Nasdaq. If this figure were adjusted to reflect Nasdaq's current share price of $45.80, the combined value of the cash and stock would be $4.68B. We shall see, however, that even using Nasdaq's more conservative value for their stock, Nasdaq is still likely decreasing shareholder value through this transaction.

[6] Robert Sales, ECN Evolution – Drilling Down The Big Picture, Wall Street & Technology, January 17, 2003
[7] Company Data
[8] 2007 3Q 10-Q

Summary of Nasdaq/Borse Dubai/OMX AB Transaction

	Nasdaq Pays ($M)	Nasdaq Receives ($M)	
Cash (for OMX)	**1,900**	**492**	**Cash (price above market for LSE shares)**
Stock (for OMX [implied value])*	**2,250**	**'?'**	**100% ownership of OMX**
Cash (for DIFX)	**50**	**'?'**	**33% ownership of DIFX**
	4,200	**4,200**	

* implied value = 4,200 - 1900 – 50

(A point of interest in the preceding table is the price above market that Nasdaq received on the sale of its 29% stake of LSE to Borse Dubai. Nasdaq got £20.33 per share for its stake, while shares were selling for just £17.22 on the day of the announcement, making a difference of $492M. That difference is remarkably close to the "gain in sale of strategic initiative" Nasdaq logged for the 3rd quarter: $431.4M. It would appear Borse Dubai purposefully overpaid Nasdaq for its stake in LSE, lending further weight to our view that the series of transactions between Nasdaq, Borse Dubai, and OMX AB are cover for one large, concentrated transaction).

Using the above table, a little arithmetic shows that, in order for Nasdaq to break even on this deal, 100% of OMX AB and 33% OF DIFX need to be worth

4,200 – 492 = $ 3.7B.

Though this is not impossible, we feel it is highly unlikely. Our own valuation of OMX AB using generous growth assumptions arrived at a value of $2.3B (see "valuation" section)– not far from what it was trading at before Nasdaq made its acquisition plans known (see chart below; March 2006 was beginning of offer rumors[9], demarcated by the vertical red line).

[9] Month of earliest mention in LexisNexis

Provided this valuation is correct, that would imply a value for DIFX of $4.5B – just 13% smaller than Nasdaq's current market cap – despite the former have only 43 listed *securities*[10] compared to the latter's 3,200 companies[11] (put another way, Nasdaq has 75 *times* as many listed companies as DIFX has listed securities ([many of them issued by the same companies]).

Alternatively, our valuation of OMX AB might be incorrect. If Nasdaq's $50M spent for a 1/3rd stake in DIFX represents a fair price, then OMX would have to see the following growth rates over the next 10 years to justify a price tag of $3.65B (growth rates fall linearly to long-term GDP [which, at 3%, is generous, considering Europe's aging population and slow GDP growth over the past decade-and-a-half] over a ten year period).

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
47.31%	*42.38%*	*37.46%*	*32.54%*	*27.61%*	*22.69%*	*17.77%*	*12.85%*	*7.92%*	*3.00%*

Comparing that to OMX's non-weighted average growth rate over the past 10 years of 17.03%, one can be forgiven for being skeptical. The weighted average of 11.04% makes such future growth prospects look even dimmer. Altogether, the above analysis makes us pessimistic that Nasdaq will get its money/stocks' worth out of this transaction.

[10] http://www.difx.ae/Public/market-info/list-of-securities.htm
[11] http://www.nasdaq.com/about/overview.stm

Risk Factors

- **Unforeseen Synergies:**

Because Nasdaq and OMX AB are fully-automated electronic exchanges, there is reason to believe that there are enough possible synergies between the two firms to justify the purchase price of OMX AB. However, such synergies are projected to total only $150M.[12] Adding $150M from the valuation arrived at below through generous assumptions regarding sales growth would raise the target per-share price by $0.77 to $42.50 – still overvalued relative to Nasdaq's share price on 12/07 of $45.80 by 7.5%

- **Complexities Arising out of Nasdaq's Acquisition Strategy:**

If one of the proposed transactions does not close according to the way it was planned, or if any legal problems arise, this could impact Nasdaq's valuation either positively or negatively. If the proposed merger is found to be non-accretive, a reverse merger or divestiture would be costly and could adversely affect the maneuverability of the firm for future deals.

- **Adverse Changes in Regulatory Environment:**

Any unforeseen regulatory changes or market de-regulation or restriction could have an impact on Nasdaq's business strategy, its market position, and its profitability.

- **Change in Trading Volume:**

In the first three quarters of 2007, 89% of Nasdaq's revenue came from its Market Services segment and 86% of the above number is money Nasdaq generated through processing the transactions and executing trades.[13] Much of Nasdaq's recent profits are based on the increased market volume of recent years. Any increase in market volume would have a significant impact on Nasdaq's bottom line

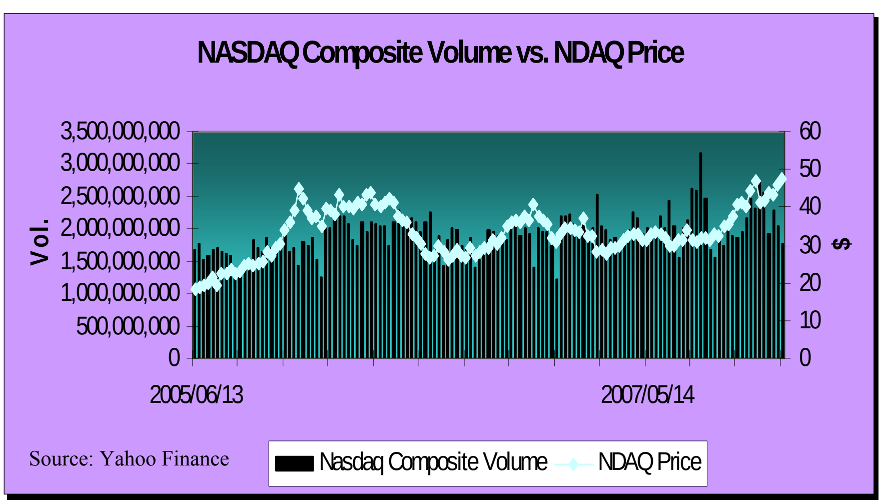
[12] "OMX victory for Nasdaq poses new threat to LSE," Searjeant, Graham, The Times of London, May 26, 2007. http://business.timesonline.co.uk/tol/business/industry_sectors/banking_and_finance/article1842743.ece

[13] Nasdaq 10-Q, Nov 2007

—Pending Adjustable-Rate Mortgage (ARM) Resets and Volume

Our assessment of Nasdaq's prospects is generally bearish. However, there is a risk to our call that bears special mention: the wave of ARM resets (especially subprime) scheduled for 2008 (see below).

Trading volume could be unusually high over the next 12 months as investors react to news on the performance of the housing market. This would probably give Nasdaq's shares an upward pull, as recent increases in market volume have tended to lift Nasdaq's share price (correlation = 34%; R^2 = 12%, $p < 0.0001$).



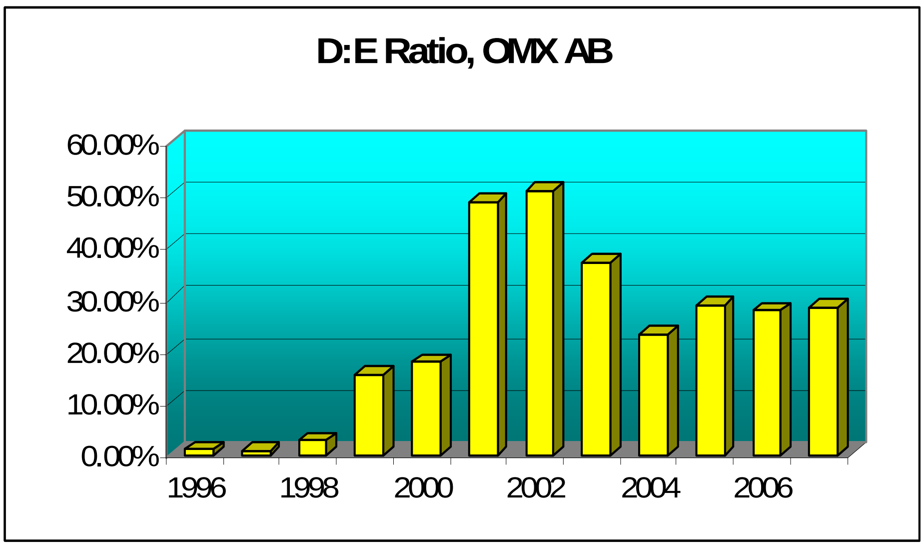
Please see the disclaimer at the back of this report for important information

VALUATION

In order to reach a more complete understanding of Nasdaq's value, two valuations were conducted of both Nasdaq and OMX AB (DIFX, as a private entity wholly owned by the government of the United Arab Emirates, has no publicly available financial information) – one with optimistic assumptions, one with more realistic assumptions. The estimated values of OMX and Nasdaq were then summed to arrive at four valuations for the post-acquisition Nasdaq OMX Group in order to gauge the value increase/decrease to shareholders. Our analysis showed that three of the valuation analyses undertaken resulted in a SELL recommendation, while one resulted in a HOLD recommendation.

Assumptions, OMX AB:

OMX AB seemed to lack a consistent pattern of targeted debt-to-equity ratio (see below), and we therefore used the APV method to conduct our valuation.



Source: Capital IQ
Note: 2007 numbers reflect previous 12 months, therefore overlapping with Q4 of 2006.

Beta: Due to the fact that OMX AB is a Sweden-based company with share information listed in Swedish Crowns, we relied on Reuters for our levered beta: 1.29

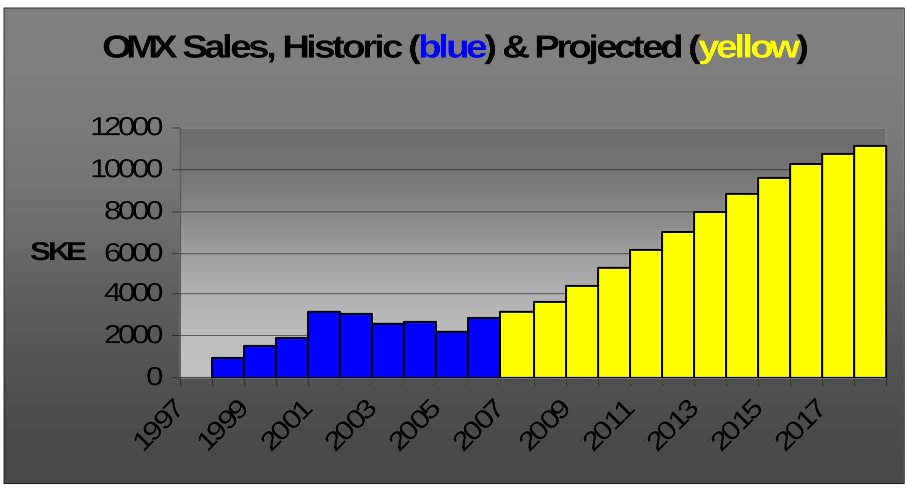
Ru: To compute OMX AB's unlevered cost of equity, we used the following for inputs into the formula

$$Ru = Rf + \beta u * [E(Rm) - Rf]$$

- Rf: For the risk-free rate, we used the yield on a two-year, Euro-denominated bond provided by Bloomberg : 3.87%.
- Bu: For the unlevered beta, we used the formula $\beta u = \beta l / [1+(1-t)(D/E)]$[14] to arrive at Bu: 1.00
- E(Rm) – Rf: For the equity risk premium, we used the ERP associated with the Swedish stock market: 11.54%[15]
- These inputs yield an Ru of 15.47%

Sales: Optimistic Case: We assumed that revenues would grow 20.76% between 2007 and 2008, or 1.5x the growth witnessed between 2006 and projected for 2007 based on 4Q performance in 2006. We further assume that revenue growth will decline linearly from 20.76% to long-term GDP of 3% over 10 years (again, erring on the optimistic side, as long term European GDP growth could well be below 3%).

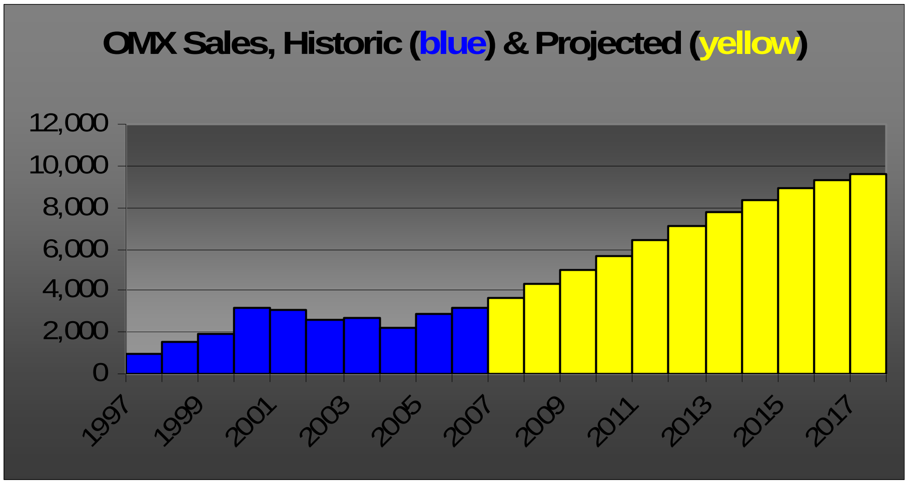
Sales Projections, Optimistic



Sales: Realistic Case: We assumed that revenues would grow 17.39% between 2007 and 2008, or the average annual growth witnessed between 1997 and 2006. Again, we assume that revenue growth will decline linearly from 17.39% to long-term GDP of 3% over 10 years (once again, erring on the optimistic side, as long term European GDP growth could well be below 3%).

[14] Cohen, R.D. "Incorporating Default Risk Into Hamada's Equation for Application to Capital Structure", Wilmott Magazine (2007)
[15] Minford, Patrick "The Equity Risk Premium and Prospects for Markets," Cardiff Business School, (http://www.cf.ac.uk/carbs/econ/minfordp/EquityRiskPremium2.pdf)

Sales Projections, Realistic



Cost Of Goods Sold: COGS rose rapidly from 8% of Sales in 1998 to a high of 44% of Sales in 2005, but since 2005 has held steady at the 45% - 42% range. Therefore, we used the average of 2006 COGS as a % of Sales and 2007 YTD COGS as a % of Sales, 43%, in projecting future COGS as a % of Sales.

SG&A: Inversely to COGS, SG&A fell rapidly from .53% of Sales in 1998 to a low of 15% of Sales in 2006. For the 2005 to 2007 time period, SG&A as a % of Sales has been between 15% of Sales and 16% of Sales. Therefore, we used the average of 2006 SG&A as a % of Sales and 2007 YTD SG&A as a % of Sales, 16%, in projecting future SG&A expense as a % of Sales.

Depreciation & Amortization: As depreciation & Amortization have shown no detectable pattern over the past decade, we used the 10 year average of 5.09% of Sales in projecting future depreciation and amortization as a % of Sales.

Other Operating Expenses: These have averaged 5.21% of Sales over the past decade, but with no Other Operating Expenses recorded for the past four years. To be bullish in our assessment, we assumed Other Operating Expenses would be half of their historic average: 2% of Sales

Marginal Tax Rate: Based on materials published by the Center for Freedom and Prosperity[16], Sweden's marginal tax rate is 28%.

Accounts Receivable: There has been no detectable pattern in changes in A/R as a % of Sales over the past decade, with a low of -5.6% in 2001 and a high of 35.6% in 2007 (year-end projection based on performance of 4Q 2006). We felt the most prudent approach given these circumstances was to use the average over the past 10 years, 7.3% of Sales, in projecting future changes in A/R as a % of Sales.

[16] http://www.freedomandprosperity.org/Papers/sweden/sweden.shtml

Other Current Assets: As with A/R, there has been no detectable pattern in changes in Other Current Assets as a % of Sales over the past decade, with a low of -24.9% in 2002 and a high of 94.68% in 2005. As with A/R, we felt the most prudent approach given these circumstances was to use the average over the past 10 years, 15.1% of Sales, in projecting future changes in Other Current Assets as a % of Sales.

Cash: Again, as with A/R and Other Current Assets, there has been no detectable pattern in changes in Cash as a % of Sales over the past decade, with a low of -29% in 2000 and a high of 32.5% in 1999. Again, we felt the most prudent approach given these circumstances was to use the average over the past 10 years, 2.9% of Sales, in projecting future changes in Cash as a % of Sales

Accounts Payable: Once again, as with A/R, Other Current Assets, and Cash, there has been no detectable pattern in changes in A/P as a % of Sales over the past decade, with a low of -4.8% in 2001 and a high of 21.7% in 1997. Again, we felt the most prudent approach given these circumstances was to use the average over the past 10 years, 1.2% of Sales, in projecting future changes in A/P as a % of Sales.

Other Current Liabilities: Yet again, as with A/R, Other Current Assets, Cash, and A/P, there has been no detectable pattern in changes in Other Current Liabilities as a % of Sales over the past decade, with a low of -22.1% in 2004 and a high of 81.1% in 2005. Again, we felt the most prudent approach given these circumstances was to use the average over the past 10 years, 21.5% of Sales, in projecting future changes in Other Current Liabilities as a % of Sales.

Other Long-Term Liabilities: And yet again, as with A/R, Other Current Assets, Cash,, A/P, and Other Current Liabilities, there has been no detectable pattern in changes in Other Long-Term Liabilities as a % of Sales over the past decade, with a low of -16% in 2002 and a high of 12% in 2003. Again, we felt the most prudent approach given these circumstances was to use the average over the past 10 years, 0.3% of Sales, in projecting future changes in Other Long-Term Liabilities as a % of Sales.

Capex: Over the past decade, Capex has been between 2.4% and 6% of Sales (with one exception, 2001, when it was 10.7% of Sales). As it has been in such a narrow band, we felt using the 10 year average was a suitable method for projecting future Capex as a % of Sales. However, the 10 year average was just 4.6% of Sales, which might look unsuitable because it is below projected Depreciation & Amortization as a % of Sales. But because Capex does not capture the amortization portion of Depreciation & Amortization, we feel a projected Capex as a % of Sales 0.5% below Depreciation & Amortization as a % of Sales is suitable, and therefore used the 10 year average of 4.6% of Sales in projecting future Capex as a % of Sales.

Debt: Because long-term and short-term debt have held nearly constant over the past three years, we assume debt levels will remain at their three year average of 1.8B SEK for the duration of our forecast period.

These assumptions yielded the following two valuations, one based on optimistic sales growth and the other of realistic sales growth.

OMX Holdings: Pro-Forma Income Statement, Optimistic (SEK, in millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Sales	**3,661**	**4,421**	**5,251**	**6,134**	**7,044**	**7,950**	**8,816**	**9,602**	**10,269**	**10,780**	**11,103**
Cost of Goods Sold	1,535	1,891	2,246	2,624	3,013	3,401	3,771	4,107	4,393	4,611	4,749
Gross Profit	2,126	2,530	3,005	3,510	4,031	4,550	5,045	5,495	5,877	6,169	6,354
SG&A (excluding depreciation)	598	709	842	983	1,129	1,275	1,413	1,540	1,646	1,728	1,780
Depreciation and Amortization	228	225	267	312	359	405	449	489	523	549	565
Other Operating Expenses	0	88	105	123	141	159	176	192	205	216	222
EBIT	**1,300**	**1,508**	**1,791**	**2,092**	**2,402**	**2,711**	**3,007**	**3,275**	**3,502**	**3,676**	**3,787**
Interest Expense	77	77	77	77	77	77	77	77	77	77	77
Income Before Taxes	**1,223**	**1,431**	**1,714**	**2,015**	**2,325**	**2,634**	**2,930**	**3,198**	**3,425**	**3,599**	**3,710**
Income Tax	342	401	480	564	651	738	820	895	959	1,008	1,039
Net Income	**881**	**1,030**	**1,234**	**1,451**	**1,674**	**1,897**	**2,109**	**2,302**	**2,466**	**2,592**	**2,671**

OMX Holdings: Pro-Forma Income Statement, Realistic (SEK, in millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Sales	**3,661**	**4,298**	**4,976**	**5,682**	**6,398**	**7,101**	**7,768**	**8,374**	**8,893**	**9,302**	**9,581**
Cost of Goods Sold	1,535	1,838	2,128	2,431	2,737	3,037	3,323	3,582	3,804	3,979	4,098
Gross Profit	2,126	2,459	2,848	3,252	3,661	4,064	4,445	4,792	5,089	5,323	5,483
SG&A (excluding depreciation)	598	689	798	911	1,026	1,139	1,245	1,343	1,426	1,491	1,536
Depreciation and Amortization	228	219	253	289	326	361	395	426	453	473	488
Other Operating Expenses	0	86	100	114	128	142	155	167	178	186	192
EBIT	**1,300**	**1,466**	**1,697**	**1,938**	**2,182**	**2,422**	**2,649**	**2,856**	**3,033**	**3,172**	**3,267**
Interest Expense	77	77	77	77	77	77	77	77	77	77	77
Income Before Taxes	**1,223**	**1,389**	**1,620**	**1,861**	**2,105**	**2,345**	**2,572**	**2,779**	**2,956**	**3,095**	**3,190**
Income Tax	342	389	454	521	589	657	720	778	828	867	893
Net Income	**881**	**1,000**	**1,166**	**1,340**	**1,515**	**1,688**	**1,852**	**2,001**	**2,128**	**2,229**	**2,297**

OMX Holdings: Pro-Forma Balance Sheet, Optimistic (SEK, in millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
ASSETS											
Current Assets											
Cash & Equivalents	243	373	528	708	915	1,149	1,409	1,691	1,994	2,311	2,638
Accounts Receivable	2,262	2,584	2,967	3,414	3,928	4,508	5,150	5,851	6,599	7,385	8,195
Other Current Assets	5,357	6,027	6,822	7,751	8,818	10,022	11,357	12,811	14,366	15,999	17,681
Total Current Assets	**7,862**	**8,984**	**10,317**	**11,873**	**13,661**	**15,679**	**17,916**	**20,353**	**22,959**	**25,695**	**28,513**
Long-Term Investments	809	988	1,169	1,349	1,526	1,702	1,875	2,047	2,219	2,394	2,574
PP&E, net	**295**	**297**	**404**	**529**	**673**	**835**	**1,015**	**1,211**	**1,420**	**1,640**	**1,867**
Other Assets	4,721	4,800	4,880	4,959	5,038	5,117	5,197	5,276	5,355	5,434	5,514
Total Assets	**13,687**	**15,069**	**16,769**	**18,710**	**20,899**	**23,333**	**26,003**	**28,887**	**31,954**	**35,164**	**38,468**
LIABILITIES AND EQUITY											
Current Liabilities											
Accounts Payable	109	162	225	299	383	479	585	700	823	953	1,086
Short-Term Debt	535	535	535	535	535	535	535	535	535	535	535
Other Current Liabilities	6,663	7,614	8,743	10,062	11,577	13,287	15,183	17,248	19,456	21,775	24,162
Total Current Liabilities	**7,307**	**8,311**	**9,503**	**10,896**	**12,495**	**14,301**	**16,303**	**18,483**	**20,815**	**23,263**	**25,784**
Long-Term Debt	1,358	1,358	1,358	1,358	1,358	1,358	1,358	1,358	1,358	1,358	1,358
Total Liabilities	**8,665**	**9,669**	**10,861**	**12,254**	**13,853**	**15,659**	**17,661**	**19,841**	**22,173**	**24,621**	**27,142**
Stockholders' Equity	5,022	5,400	5,908	6,456	7,045	7,674	8,342	9,046	9,782	10,544	11,326
Total Liabilities and Equity	**13,687**	**15,069**	**16,769**	**18,710**	**20,899**	**23,333**	**26,003**	**28,887**	**31,954**	**35,164**	**38,468**

OMX Holdings: Pro-Forma Balance Sheet, Realistic (SEK, in millions)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
ASSETS											
Current Assets											
Cash & Equivalents	243	369	516	683	871	1,080	1,309	1,555	1,817	2,091	2,373
Accounts Receivable	2,262	2,575	2,938	3,352	3,819	4,337	4,903	5,514	6,162	6,840	7,539
Other Current Assets	5,357	6,008	6,761	7,622	8,591	9,666	10,843	12,111	13,458	14,867	16,318
Total Current Assets	**7,862**	**8,953**	**10,216**	**11,658**	**13,281**	**15,084**	**17,055**	**19,180**	**21,437**	**23,798**	**26,229**
Long-Term Investments	809	988	1,174	1,365	1,559	1,756	1,956	2,160	2,368	2,584	2,808
PP&E, net	**295**	**300**	**401**	**517**	**647**	**792**	**951**	**1,122**	**1,303**	**1,493**	**1,688**
Other Assets	4,721	4,800	4,880	4,959	5,038	5,117	5,197	5,276	5,355	5,434	5,514
Total Assets	**13,687**	**15,040**	**16,670**	**18,498**	**20,526**	**22,749**	**25,158**	**27,737**	**30,464**	**33,309**	**36,240**
LIABILITIES AND EQUITY											
Current Liabilities											
Accounts Payable	109	161	220	289	365	451	544	645	751	863	978
Short-Term Debt	535	535	535	535	535	535	535	535	535	535	535
Other Current Liabilities	6,663	7,587	8,657	9,879	11,255	12,782	14,453	16,254	18,166	20,167	22,227
Total Current Liabilities	**7,307**	**8,283**	**9,413**	**10,703**	**12,156**	**13,768**	**15,532**	**17,433**	**19,453**	**21,565**	**23,740**
Long-Term Debt	1,358	1,358	1,358	1,358	1,358	1,358	1,358	1,358	1,358	1,358	1,358
Total Liabilities	**8,665**	**9,641**	**10,771**	**12,061**	**13,514**	**15,126**	**16,890**	**18,791**	**20,811**	**22,923**	**25,098**
Stockholders' Equity	5,022	5,399	5,899	6,437	7,012	7,623	8,268	8,946	9,653	10,386	11,141
Total Liabilities and Equity	**13,687**	**15,040**	**16,670**	**18,498**	**20,526**	**22,749**	**25,158**	**27,737**	**30,464**	**33,309**	**36,240**

OMX Holding's Statement of Free Cash Flow, Optimistic (SEK, in millions)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Sales	**3,661**	**4,421**	**5,251**	**6,134**	**7,044**	**7,950**	**8,816**	**9,602**	**10,269**	**10,780**	**11,103**
(-) Cost of Goods Sold	1,535	1,891	2,246	2,624	3,013	3,401	3,771	4,107	4,393	4,611	4,749
(-) SG&A (excluding depreciation)	598	709	842	983	1,129	1,275	1,413	1,540	1,646	1,728	1,780
(-) Depreciation and amortization	228	225	267	312	359	405	449	489	523	549	565
(-) Other Operating Expenses	0	88	105	123	141	159	176	192	205	216	222
= EBIT	**1,300**	**1,508**	**1,791**	**2,092**	**2,402**	**2,711**	**3,007**	**3,275**	**3,502**	**3,676**	**3,787**
(-) Cash Taxes on EBIT (0.28*EBIT)-Inc in defd tax	364	422	501	586	673	759	842	917	981	1,029	1,060
= NOPAT	**936**	**1,086**	**1,289**	**1,506**	**1,730**	**1,952**	**2,165**	**2,358**	**2,522**	**2,647**	**2,726**
(+) Depreciation and amortization	228	225	267	312	359	405	449	489	523	549	565
(-) Change in A/R	1,338	322	383	447	514	580	643	700	749	786	810
(-) Change in Other Current Assets	-694	670	795	929	1,067	1,204	1,335	1,454	1,555	1,633	1,682
(-) Change in Cash	-166	130	155	181	207	234	259	283	302	317	327
(+) Change in Accounts Payable	-109	53	63	74	85	95	106	115	123	129	133
(+) Change in Other Current Liabilities	1,012	951	1,129	1,319	1,515	1,710	1,896	2,065	2,208	2,318	2,388
(+) Change in Other Long-term Liabilities	61	12	14	17	19	22	24	26	28	30	30
= Operating cash flow	**1,650**	**1,205**	**1,431**	**1,671**	**1,919**	**2,166**	**2,402**	**2,616**	**2,798**	**2,937**	**3,025**
(-) Capex	-92	-203	-241	-281	-323	-365	-404	-440	-471	-494	-509
= Free Cash Flow	**1,558**	**1,002**	**1,190**	**1,390**	**1,596**	**1,802**	**1,998**	**2,176**	**2,327**	**2,443**	**2,516**
PV of Free Cash Flow	**1,558**	**868**	**893**	**903**	**898**	**878**	**843**	**795**	**737**	**670**	**597**
SUM OF PV OF FCF	**9,639**										

Terminal Value: FCF, OMX, Optimistic (SEK in millions)	
Constant Growth Rate = g	3.00%
(Ru - g)	12.47%
Terminal Value at 2017 = FCF_{2017} / (Ru-g)	20,184
PV of TV @ 2007 FYE	**4,792**

OMX Holding's Statement of Free Cash Flow, Realistic (SEK, in millions)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Sales	**3,661**	**4,298**	**4,976**	**5,682**	**6,398**	**7,101**	**7,768**	**8,374**	**8,893**	**9,302**	**9,581**
(-) Cost of Goods Sold	1,535	1,838	2,128	2,431	2,737	3,037	3,323	3,582	3,804	3,979	4,098
(-) SG&A (excluding depreciation)	598	689	798	911	1,026	1,139	1,245	1,343	1,426	1,491	1,536
(-) Depreciation and amortization	228	219	253	289	326	361	395	426	453	473	488
(-) Other Operating Expenses	0	86	100	114	128	142	155	167	178	186	192
= EBIT	**1,300**	**1,466**	**1,697**	**1,938**	**2,182**	**2,422**	**2,649**	**2,856**	**3,033**	**3,172**	**3,267**
(-) Cash Taxes on EBIT (0.28*EBIT)-Inc in defd tax	364	410	475	543	611	678	742	800	849	888	915
= NOPAT	**936**	**1,055**	**1,222**	**1,395**	**1,571**	**1,744**	**1,907**	**2,056**	**2,184**	**2,284**	**2,353**
(+) Depreciation and amortization	228	219	253	289	326	361	395	426	453	473	488
(-) Change in A/R	1,338	313	363	414	466	518	566	611	648	678	699
(-) Change in Other Current Assets	-694	651	754	861	969	1,075	1,176	1,268	1,347	1,409	1,451
(-) Change in Cash	-166	126	146	167	188	209	229	246	262	274	282
(+) Change in Accounts Payable	-109	52	60	68	77	85	93	101	107	112	115
(+) Change in Other Current Liabilities	1,012	924	1,070	1,222	1,376	1,527	1,671	1,801	1,912	2,000	2,060
(+) Change in Other Long-term Liabilities	61	12	14	16	18	19	21	23	24	25	26
= Operating cash flow	**1,650**	**1,171**	**1,356**	**1,548**	**1,743**	**1,935**	**2,117**	**2,282**	**2,423**	**2,534**	**2,610**
(-) Capex	-92	-197	-228	-261	-293	-326	-356	-384	-408	-426	-439
= Free Cash Flow	**1,558**	**974**	**1,128**	**1,288**	**1,450**	**1,609**	**1,760**	**1,898**	**2,015**	**2,108**	**2,171**
PV of Free Cash Flow	**1,558**	**843**	**846**	**836**	**816**	**784**	**743**	**693**	**638**	**578**	**515**
SUM OF PV OF FCF	**8,851**										

Terminal Value: FCF, OMX, Realistic (SEK in millions)	
Constant Growth Rate = g	3.00%
(Ru - g)	12.47%
Terminal Value at 2017 = FCF_{2017} / (Ru-g)	17,416
PV of TV @ 2007 FYE	**4,134**

Please see the disclaimer at the back of this report for important information

Debt Tax Shield	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
expected LT debt (avg 2004 - 2007)	1,376										
Interest Expense	77	77	77	77	77	77	77	77	77	77	77
Interest Expense * MTR	22	22	22	22	22	22	22	22	22	22	22
Discounted Interest Expense * MTR	21	20	19	18	17	16	16	15	14	13	13
Sum of PV of DTS (2008-2017)	183										

Terminal Value: DTS, OMX (SKE, in millions)	
Terminal Value at 2017 = (28% * $D_{2017)}$ / (1+Rd)^10	385
PV of TV @ 2007 FYE	223

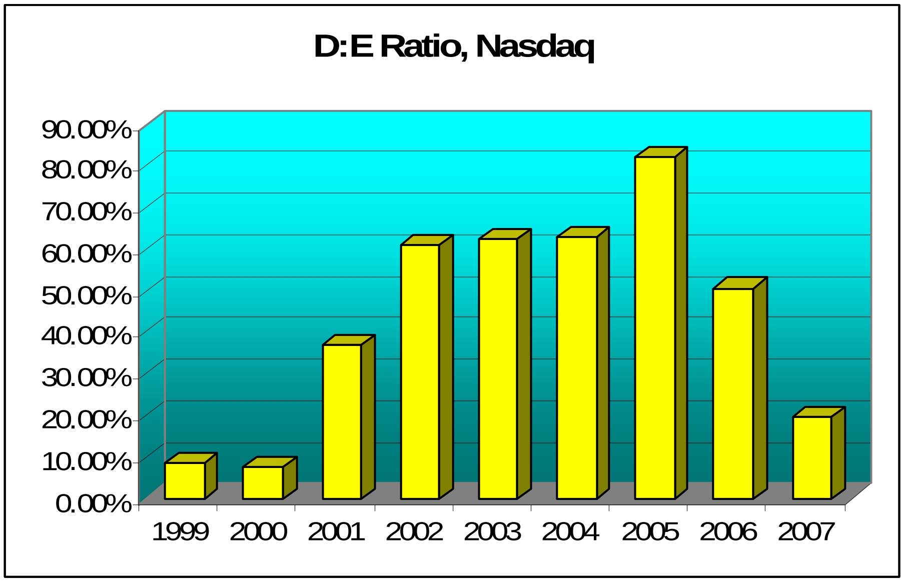
DCF-APV Valuation, Optimistic	in SEK	in USD
PV of free cash flows (2008-2017)	9,639	1,506
PV of free cash flows (Terminal value)	4,792	749
PV of debt tax shield (2008-2017)	183	29
PV of debt tax shield (Terminal value)	223	35
(+) Value of ST Invsts and cash	730	114
(+) Value of LT Investments	809	126
(-) Notes $Payable_{2007}$	0	0
(-) Long-term $Debt_{2007}$	1,358	212
(-) Other Non-Current Liabilities	305	48
Value of Equity	**14,713**	**2,299***

DCF-APV Valuation, Realistic	in SEK	in USD
PV of free cash flows (2008-2017)	8,851	1,383
PV of free cash flows (Terminal value)	4,134	646
PV of debt tax shield (2008-2017)	183	29
PV of debt tax shield (Terminal value)	223	35
(+) Value of ST Invsts and cash	730	114
(+) Value of LT Investments	809	126
(-) Notes $Payable_{2007}$	0	0
(-) Long-term $Debt_{2007}$	1,358	212
(-) Other Non-Current Liabilities	305	48
Value of Equity	**13,267**	**2,073**

*Note that this valuation yields an equity value of roughly $2.3B. If we subtract out the $1.9B Nasdaq will pay to Borse Dubai for OMX, we are left with $400M spread across 60.6M shares, yielding a price of $6.60 per share given to Borse Dubai (compared with Nasdaq's price of $45.80 on 12/07).

Assumptions, Nasdaq:

Because of Nasdaq's lack of consistency in its debt-to-equity ratio (see below), we felt the APV method was the most appropriate method of valuation.



Source: Capital IQ
Note: 2007 numbers reflect previous 12 months, therefore overlapping with Q4 of 2006.

Beta: In order to be consistent with the beta used for the valuation of OMX AB, we relied on Reuters for our levered beta: 1.51.

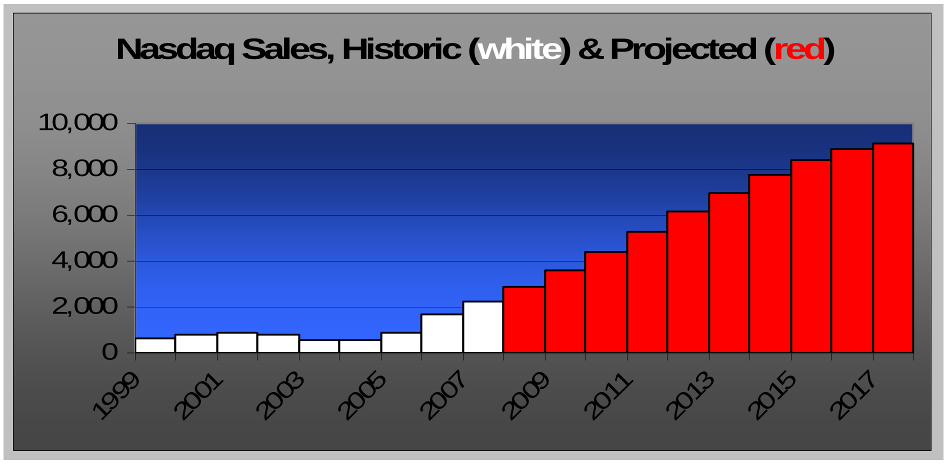
Ru: To compute Nasdaq's unlevered cost of equity, we used the following for inputs into the formula

$$Ru = Rf + \beta u * [E(Rm) - Rf]$$

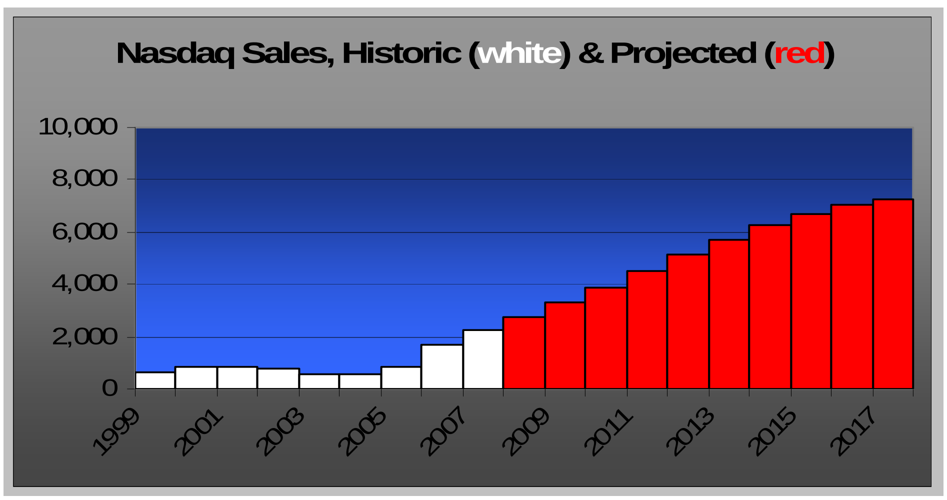
- Rf: For the risk-free rate, we used the yield on a two-year Treasury bond provided by Yahoo Finance: 3.01%.
- Bu: For the unlevered beta, we used the formula $\beta u = \beta l / [1+(1-t)(D/E)]$[17]
- E(Rm) – Rf: For the equity risk premium, used a figure of 7%.[18]
- These inputs yield an Ru of 10.44%

Sales: Optimistic Case: We assumed that revenues would grow 30.22% between 2007 and 2008, or 1.25x the average annual growth witnessed over the past 10 years. We further assume that revenue growth will decline linearly from 30.22% to long-term GDP of 3% over 10 years.

[17] Cohen, R.D. "Incorporating Default Risk Into Hamada's Equation for Application to Capital Structure", Wilmott Magazine (2007)
[18] Ibbotson Associates



Sales: Realistic Case: We assumed that revenues would grow 24.17% between 2007 and 2008, or the average annual growth witnessed over the past 10 years. We further assume that revenue growth will decline linearly from 24.17% to long-term GDP of 3% over 10 years.



Cost of Goods Sold: Realistic: COGS rose rapidly from 1% of Sales in 1999 to a high of 66% of Sales in 2007YTD. To reflect this upward trend, COGS as a % of Sales in our projections was held constant at the 2007 level of 66% of Sales.

Cost of Goods Sold: Optimistic: The same assumptions as above were used, but with COGS being lowered by $150 annually to reflect synergies attained through the acquisition of OMX.

Operating Expenses (including SG&A): Inversely to COGS, Operating Expenses fell rapidly from .70.9% of Sales in 1999 to a low of 15.4% of Sales in 2007 YTD. To reflect this downward trend, Operating Expenses as a % of Sales in our projections was held constant at the 2007 level of 15.4% of Sales.

Depreciation & Amortization: As with Depreciation & Amortization have steadily declined over the past decade to a low of 0.6% for 2007, we chose to use the average of 2006 and 2007 YTD, 1.7%, in projecting future depreciation and amortization as a % of Sales.

Marginal Tax Rate: A Marginal Tax Rate of 39.5% was used.

Accounts Receivable: There has been no detectable pattern in changes in A/R as a % of Sales over the past decade, with a low of -7.8% in 2003 and a high of 11.7% in. We felt the most prudent approach given these circumstances was to use the average over the past eight years, 1.4% of Sales, in projecting future changes in A/R as a % of Sales.

Other Current Assets: As with A/R, there has been no detectable pattern in changes in Other Current Assets as a % of Sales over the past eight years, with a low of -3.6% in 2003 and a high of 5% in 2006. As with A/R, we felt the most prudent approach given these circumstances was to use the average over the past eight years, 0.5% of Sales, in projecting future changes in Other Current Assets as a % of Sales.

Cash: Again, as with A/R and Other Current Assets, there has been no detectable pattern in changes in Cash as a % of Sales over the past eight years, with a low of -16.8% in 2004 and a high of 30.2% in 2000 (actually, it was even higher in 2007 YTD, but that number was excluded from the mean because it was such an outlier). Again, we felt the most prudent approach given these circumstances was to use the average over the past eight years, 2.6% of Sales, in projecting future changes in Cash as a % of Sales

Accounts Payable: Once again, as with A/R, Other Current Assets, and Cash, there has been no detectable pattern in changes in A/P as a % of Sales over the past eight years, with a low of -7.8% in 2002 and a high of 10.5% in 2005. Again, we felt the most prudent approach given these circumstances was to use the average over the past eight years, 0.2% of Sales, in projecting future changes in A/P as a % of Sales.

Other Current Liabilities: Yet again, as with A/R, Other Current Assets, Cash, and A/P, there has been no detectable pattern in changes in Other Current Liabilities as a % of Sales over the past eight years, with a low of -6.3% in 2003 and a high of 6.3% in 2002. Again, we felt the most prudent approach given these circumstances was to use the average over the past eight years, 0.3% of Sales, in projecting future changes in Other Current Liabilities as a % of Sales.

Other Long-Term Liabilities: And yet again, as with A/R, Other Current Assets, Cash,, A/P, and Other Current Liabilities, there has been no detectable pattern in changes in Other Long-Term Liabilities as a % of Sales over the past eight years, with a low of -2.4% in 2006 and a high of 2.5% in 2002. Again, we felt the most prudent approach given these circumstances was to use the average over the past eight years, 1.1% of Sales, in projecting future changes in Other Long-Term Liabilities as a % of Sales.

Capex: Over the past eight years, Capex has steadily declined from 23% of Sales in 2000 to just 1% of Sales in 2007 YTD. To reflect this trend, we took the average of 2007 YTD and 2006, 1.2%, to project future Capex as a % of Sales.

Debt: Nasdaq explicitly stated that they would take on $2.2B of debt to finance their acquisition of OMX AB. We added that to current debt to arrive at a figure of $2.6B for debt starting in 1Q 2008.

Nasdaq Pro-Forma Income Statement, Optimistic ($M)											
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Sales	**2,220**	**2,890**	**3,606**	**4,401**	**5,252**	**6,124**	**6,975**	**7,754**	**8,408**	**8,889**	**9,156**
Cost of Goods Sold	1,470	1,764	2,238	2,765	3,328	3,906	4,469	4,985	5,418	5,737	5,913
Gross Profit	**750**	**1,126**	**1,368**	**1,637**	**1,924**	**2,219**	**2,506**	**2,769**	**2,990**	**3,153**	**3,243**
Operating Expenses (including SG&A)	341	444	554	676	807	941	1,072	1,192	1,292	1,366	1,407
Depreciation and Amortization	14	44	48	52	53	61	70	78	84	89	92
EBIT	**395**	**639**	**766**	**909**	**1,064**	**1,216**	**1,364**	**1,500**	**1,613**	**1,697**	**1,744**
Interest Expense	95	282	282	282	282	282	282	282	282	282	282
Income Before Taxes	**300**	**357**	**484**	**627**	**782**	**934**	**1,082**	**1,218**	**1,332**	**1,415**	**1,462**
Income Taxes	118	141	191	248	309	369	427	481	526	559	577
Net Income	**181**	**216**	**293**	**379**	**473**	**565**	**655**	**737**	**806**	**856**	**884**

Nasdaq Pro-Forma Income Statement, Realistic ($M)											
	2007	**2008**	**2009**	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
Sales	**2,220**	**2,756**	**3,306**	**3,895**	**4,506**	**5,119**	**5,706**	**6,239**	**6,691**	**7,033**	**7,244**
Cost of Goods Sold	1,470	1,825	2,189	2,579	2,984	3,390	3,778	4,132	4,431	4,657	4,797
Gross Profit	**750**	**931**	**1,117**	**1,315**	**1,522**	**1,729**	**1,927**	**2,107**	**2,260**	**2,375**	**2,447**
Operating Expenses (including SG&A)	341	424	508	599	693	787	877	959	1,028	1,081	1,113
Depreciation and Amortization	14	41	44	46	45	51	57	63	67	71	73
EBIT	**395**	**466**	**564**	**671**	**784**	**891**	**993**	**1,086**	**1,165**	**1,224**	**1,261**
Interest Expense	95	282	282	282	282	282	282	282	282	282	282
Income Before Taxes	**300**	**184**	**282**	**390**	**502**	**609**	**711**	**804**	**883**	**942**	**979**
Income Taxes	118	73	112	154	198	241	281	318	349	372	387
Net Income	**181**	**111**	**171**	**236**	**304**	**368**	**430**	**486**	**534**	**570**	**592**

Nasdaq Pro-Forma Balance Sheet, Optimistic ($M)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
ASSETS											
Current Assets											
Cash & Equivalents	1,268	1,343	1,436	1,550	1,686	1,844	2,024	2,225	2,442	2,672	2,909
Accounts Receivable	274	314	364	424	497	581	678	784	900	1,023	1,149
Other Current Assets	169	184	203	227	255	288	325	366	411	458	507
Total Current Assets	**1,711**	**1,841**	**2,003**	**2,201**	**2,437**	**2,713**	**3,027**	**3,375**	**3,754**	**4,153**	**4,565**
Long-Term Investments	0	0	0	0	0	0	0	0	0	0	0
PP&E, net	62	51	44	43	50	59	68	79	90	102	115
Other Assets	1,227	1,228	1,228	1,228	1,228	1,229	1,229	1,229	1,229	1,229	1,229
Total Assets	**3,000**	**3,120**	**3,275**	**3,472**	**3,716**	**4,000**	**4,323**	**4,683**	**5,073**	**5,485**	**5,909**
LIABILITIES AND EQUITY											
Current Liabilities											
Accounts Payable	128	133	139	147	156	167	180	193	208	224	241
Short-Term Debt	0	0	0	0	0	0	0	0	0	0	0
Other Current Liabilities	303	313	324	339	356	375	398	423	450	479	509
Total Current Liabilities	431										
Long-Term Debt	443	2,643	2,643	2,643	2,643	2,643	2,643	2,643	2,643	2,643	2,643
Other Liabilities	279	279	279	279	279	279	279	279	279	279	279
Total Liabilities	**1,153**	**2,922**	**2,922**	**2,922**	**2,922**	**2,922**	**2,922**	**2,922**	**2,922**	**2,922**	**2,922**
Stockholders' Equity	1,847	198	353	550	794	1,078	1,401	1,761	2,150	2,563	2,987
Total Liabilities and Equity	3,000	3,120	3,275	3,472	3,716	4,000	4,323	4,683	5,073	5,485	5,909

Nasdaq Pro-Forma Balance Sheet, Realistic ($M)											
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
ASSETS											
Current Assets											
Cash & Equivalents	1,268	1,343	1,436	1,550	1,686	1,844	2,024	2,225	2,442	2,672	2,909
Accounts Receivable	274	314	364	424	497	581	678	784	900	1,023	1,149
Other Current Assets	169	184	203	227	255	288	325	366	411	458	507
Total Current Assets	**1,711**	**1,841**	**2,003**	**2,201**	**2,437**	**2,713**	**3,027**	**3,375**	**3,754**	**4,153**	**4,565**
Long-Term Investments	0	0	0	0	0	0	0	0	0	0	0
PP&E, net	62	51	44	43	50	59	68	79	90	102	115
Other Assets	1,227	1,228	1,228	1,228	1,228	1,229	1,229	1,229	1,229	1,229	1,229
Total Assets	**3,000**	**3,120**	**3,275**	**3,472**	**3,716**	**4,000**	**4,323**	**4,683**	**5,073**	**5,485**	**5,909**
LIABILITIES AND EQUITY											
Current Liabilities											
Accounts Payable	128	133	139	147	156	167	180	193	208	224	241
Short-Term Debt	0	0	0	0	0	0	0	0	0	0	0
Other Current Liabilities	303	313	324	339	356	375	398	423	450	479	509
Total Current Liabilities	431										
Long-Term Debt	443	2,643	2,643	2,643	2,643	2,643	2,643	2,643	2,643	2,643	2,643
Other Liabilities	279	279	279	279	279	279	279	279	279	279	279
Total Liabilities	**1,153**	**2,922**	**2,922**	**2,922**	**2,922**	**2,922**	**2,922**	**2,922**	**2,922**	**2,922**	**2,922**
Stockholders' Equity	1,847	198	353	550	794	1,078	1,401	1,761	2,150	2,563	2,987
Total Liabilities and Equity	3,000	3,120	3,275	3,472	3,716	4,000	4,323	4,683	5,073	5,485	5,909

Nasdaq's Statement of Cash Flows, Optimistic ($M)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Sales	**2,220**	**2,890**	**3,606**	**4,401**	**5,252**	**6,124**	**6,975**	**7,754**	**8,408**	**8,889**	**9,156**
(-) Cost of Goods Sold	1,470	1,764	2,238	2,765	3,328	3,906	4,469	4,985	5,418	5,737	5,913
(-) Operating Expenses (excluding depreciation)	341	444	554	676	807	941	1,072	1,192	1,292	1,366	1,407
(-) Depreciation and amortization	14	44	48	52	53	61	70	78	84	89	92
= EBIT	**395**	**639**	**766**	**909**	**1,064**	**1,216**	**1,364**	**1,500**	**1,613**	**1,697**	**1,744**
(-) Cash Taxes on EBIT (0.395*EBIT)-Inc in defd tax	51	252	302	359	420	480	539	592	637	670	689
= NOPAT	**343**	**386**	**463**	**550**	**644**	**736**	**825**	**907**	**976**	**1,027**	**1,055**
(+) Depreciation and amortization	14	44	48	52	53	61	70	78	84	89	92
(-) Change in A/R	41	40	50	61	72	84	96	107	116	123	126
(-) Change in Other Current Assets	-54	15	19	23	28	33	37	41	45	47	49
(-) Change in Cash	937	75	93	114	136	158	180	201	217	230	237
(+) Change in Accounts Payable	-21	5	6	8	9	11	12	14	15	16	16
(+) Change in Other Current Liabilities	-23	9	12	14	17	20	23	25	27	29	30
(+) Change in Other Long-term Liabilities	11	25	31	38	46	53	61	68	73	78	80
= Operating cash flow	**-599**	**340**	**399**	**464**	**532**	**606**	**677**	**743**	**798**	**838**	**861**
(-) CAPEX	-23	-33	-41	-50	-60	-70	-80	-88	-96	-101	-104
= Free Cash Flow	**-621**	**307**	**358**	**414**	**473**	**536**	**598**	**654**	**702**	**737**	**756**
PV of Free Cash Flow	-563	278	293	307	318	326	329	327	317	302	280
Sum of PV of FCF	2,514										

Terminal Value: FCF, Nasdaq, Optimistic ($M)	
Constant Growth Rate = g	3.00%
(Ru - g)	7.44%
Terminal Value at 2017 = FCF2017 / (Ru-g)	10,168
PV of TV @ 2007 FYE	**3,767**

Please see the disclaimer at the back of this report for important information

Nasdaq's Statement of Cash Flows, Realistic ($M)	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Sales	**2,220**	**2,756**	**3,306**	**3,895**	**4,506**	**5,119**	**5,706**	**6,239**	**6,691**	**7,033**	**7,244**
(-) Cost of Goods Sold	1,470	1,825	2,189	2,579	2,984	3,390	3,778	4,132	4,431	4,657	4,797
(-) Operating Expenses (excluding depreciation)	341	424	508	599	693	787	877	959	1,028	1,081	1,113
(-) Depreciation and amortization	14	41	44	46	45	51	57	63	67	71	73
= EBIT	**395**	**466**	**564**	**671**	**784**	**891**	**993**	**1,086**	**1,165**	**1,224**	**1,261**
(-) Cash Taxes on EBIT (0.395*EBIT)-Inc in defd tax	51	184	223	265	310	352	392	429	460	484	498
= NOPAT	**343**	**282**	**341**	**406**	**475**	**539**	**601**	**657**	**705**	**741**	**763**
(+) Depreciation and amortization	14	41	44	46	45	51	57	63	67	71	73
(-) Change in A/R	41	38	46	54	62	71	79	86	92	97	100
(-) Change in Other Current Assets	-54	15	18	21	24	27	30	33	36	37	39
(-) Change in Cash	937	71	85	101	117	132	148	161	173	182	187
(+) Change in Accounts Payable	-21	5	6	7	8	9	10	11	12	13	13
(+) Change in Other Current Liabilities	-23	9	11	13	15	17	18	20	22	23	23
(+) Change in Other Long-term Liabilities	11	24	29	34	39	45	50	54	58	61	63
= Operating cash flow	**-599**	**237**	**282**	**330**	**379**	**430**	**480**	**525**	**563**	**591**	**609**
(-) CAPEX	-23	-31	-38	-44	-51	-58	-65	-71	-76	-80	-83
= Free Cash Flow	**-621**	**206**	**245**	**286**	**328**	**372**	**415**	**454**	**486**	**511**	**527**
PV of Free Cash Flow	-563	186	201	212	220	226	229	226	220	209	195
Sum of PV of FCF	1,562										

Terminal Value: FCF, Nasdaq, Realistic ($M)	
Constant Growth Rate = g	3.00%
(Ru - g)	7.44%
Terminal Value at 2017 = FCF2017 / (Ru-g)	7,077
PV of TV @ 2007 FYE	**2,622**

Debt Tax Shield	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Interest Expense	95	282	282	282	282	282	282	282	282	282	282
Interest Expense * MTR	38	111	111	111	111	111	111	111	111	111	111
Discounted Interest Expense * MTR	37	101	91	82	74	67	61	55	49	45	40
Sum of PV of DTS (2008-2017)	702										

Terminal Value: DTS	
Terminal Value at 2017 = (39.5% * $D_{2017)}$ / (1+Rd)^10	1,044
PV of TV @ 2007 FYE	**379**

Please see the disclaimer at the back of this report for important information

Combined Valuations

In order to judge the likely increase or decrease to shareholder value resulting from the OMX/DIFX acquisition by Nasdaq, four valuation calculations were made – one combining optimistic growth/synergy assumptions for both Nasdaq and OMX, one combining optimistic growth/synergy assumptions for Nasdaq with more realistic growth/synergy assumptions for OMX, one combining optimistic growth/synergy assumptions for OMX with more realistic growth/synergy assumptions for Nasdaq, and one combining more realistic growth/synergy assumptions for both Nasdaq and OMX. The results are as follows (note the wide difference between optimistic and realistic assumptions of Nasdaq's performance stem from the assumption of both higher growth *and* $150M annual savings through synergies):

DCF-APV Valuation	NASDAQ, Optimistic	OMX, Optimistic
PV of free cash flows (2008-2017)	2,514	1,506
PV of free cash flows (Terminal value)	3,767	749
PV of debt tax shield (2008-2017)	702	29
PV of debt tax shield (Terminal value)	379	35
(+) Value of ST Investments and cash	1,268	114
(+) Value of LT Investments	0	126
(-) Notes Payable$_{2007}$	128	0
(-) Long-term Debt$_{2007}$	468	212
(-) Long-term Debt$_{2008}$	2,200	
(-) Other Non-Current Liabilities	67	48
Value of Equity	**5,768**	**2,299**
# shares outstanding 12/1/07 + 60.6M new shares to Borse Dubai		174.4
Value per share = Value of Equity / # of shares		**$46.26**
Share price as of 12/14/07		$46.75
% overvalued		1.06%

DCF-APV Valuation	NASDAQ, Optimistic	OMX, Realistic
PV of free cash flows (2008-2017)	2,514	1,383
PV of free cash flows (Terminal value)	3,767	646
PV of debt tax shield (2008-2017)	702	29
PV of debt tax shield (Terminal value)	379	35
(+) Value of ST Investments and cash	1,268	114
(+) Value of LT Investments	0	126
(-) Notes Payable$_{2007}$	128	0
(-) Long-term Debt$_{2007}$	468	212
(-) Long-term Debt$_{2008}$	2,200	
(-) Other Non-Current Liabilities	67	48
Value of Equity	**5,768**	**2,073**
# shares outstanding 12/1/07 + 60.6M new shares to Borse Dubai		174.4
Value per share = Value of Equity / # of shares		**$44.96**
Share price as of 12/14/07		$46.75
% overvalued		3.83%

DCF-APV Valuation	NASDAQ, Realistic	OMX, Optimistic
PV of free cash flows (2008-2017)	1,562	1,506
PV of free cash flows (Terminal value)	2,622	749
PV of debt tax shield (2008-2017)	702	29
PV of debt tax shield (Terminal value)	379	35
(+) Value of ST Investments and cash	1,268	114
(+) Value of LT Investments	0	126
(-) Notes Payable$_{2007}$	128	0
(-) Long-term Debt$_{2007}$	468	212
(-) Long-term Debt$_{2008}$	2,200	
(-) Other Non-Current Liabilities	67	48
Value of Equity	**3,670**	**2,299**
# shares outstanding 12/1/07 + 60.6M new shares to Borse Dubai		174.4
Value per share = Value of Equity / # of shares		**$34.23**
Share price as of 12/14/07		$46.75
% overvalued		26.79%

DCF-APV Valuation	NASDAQ, Realistic	OMX, Realistic
PV of free cash flows (2008-2017)	1,562	1,383
PV of free cash flows (Terminal value)	2,622	646
PV of debt tax shield (2008-2017)	702	29
PV of debt tax shield (Terminal value)	379	35
(+) Value of ST Investments and cash	1,268	114
(+) Value of LT Investments	0	126
(-) Notes Payable$_{2007}$	128	0
(-) Long-term Debt$_{2007}$	468	212
(-) Long-term Debt$_{2008}$	2,200	
(-) Other Non-Current Liabilities	67	48
Value of Equity	**3,670**	**2,073**
# shares outstanding 12/1/07 + 60.6M new shares to Borse Dubai		174.4
Value per share = Value of Equity / # of shares		**$32.93**
Share price as of 12/14/07		$46.75
% overvalued		29.56%

Sensitivity Analysis

Using the valuation figures arrived at above, the weighted average share price was computed using the probability distributions listed below.

		Weighted Probability				Weighted Average $/Share
		Optimistic/ Optimistic (NDAQ/ OMX)	Optimistic/ Realistic (NDAQ/ OMX)	Realistic/ Optimistic (NDAQ/ OMX)	Realistic/ Realistic (NDAQ/ OMX)	
Pro-Forma Share Price		$ 46.26	$ 44.96	$ 34.23	$ 32.93	
Probability Weights (Optimistic/ Realistic)	**50%/50%**	25.00%	25.00%	25.00%	25.00%	**$ 39.59**
	33%/67%	11.11%	22.22%	22.22%	44.44%	**$ 37.37**
	25%/75%	6.25%	18.75%	18.75%	56.25%	**$ 36.26**
	10%/90%	1.00%	9.00%	9.00%	81.00%	**$ 34.26**

Please see the disclaimer at the back of this report for important information

Appendix

Select Excerpts from Nasdaq's 3Q 2007 10-Q

On Nasdaq's sale of its stake in LSE to Borse Dubai

"On September 25, 2007, Nasdaq, through its wholly-owned subsidiary NAL, sold 28.0% of the share capital of the LSE to Borse Dubai for $1,590.7 million in cash. On September 26, 2007, we sold the remaining substantial balance of our holdings in the LSE in open market transactions for approximately $193.5 million in cash. Total proceeds from these sales were $1,784.2 million. As a result of these sales, we recognized a $431.4 million pre-tax gain which is net of $18.0 million of costs directly related to the sales, primarily broker fees. The cost of this investment was approximately GBP 736.5 million, or $1,334.8 million. This investment was accounted for under SFAS 115 with any unrealized gains or losses, including foreign currency fluctuations, recorded as a separate component of accumulated other comprehensive income, net of tax until sold.

We had purchased foreign currency option contracts in order to hedge the foreign exchange exposure on our acquisition bid for the LSE. This position was marked-to-market at each reporting period resulting in gains and losses, which are included in net income. As of December 31, 2006, the gain recorded in the Consolidated Statements of Income was $48.4 million. In conjunction with the lapse of our final offers for the LSE, we traded out of these foreign exchange contracts in February 2007. Due to the improving exchange rate of the dollar when compared to the pound sterling, we recorded a loss of approximately $7.8 million on these foreign currency option contracts in first quarter of 2007 results. The cumulative realized pre-tax gain on the foreign currency option contracts was approximately $40.6 million. See Note 10, "Fair Value of Financial Instruments," to the condensed consolidated financial statements for further discussion." (P 46-47, Company 10-Q, Nov/09/2007)

On Nasdaq's purchase of OMX from Borse Dubai

"On September 20, 2007, Nasdaq, Borse Dubai and OMX entered into definitive documents related to various Transactions. Pursuant to the Transactions, Borse Dubai will conduct an offer for all of the outstanding shares of OMX, or the Borse Dubai Offer, and, once complete, will sell the OMX shares acquired in the Borse Dubai Offer or otherwise owned by Borse Dubai to Nasdaq in exchange for (i) SEK 11.4 billion in cash ($1.7 million) and (ii) 60.6 million shares of Nasdaq common stock. At the close of the Transactions, Borse Dubai will directly hold approximately 42.6 million shares of Nasdaq common stock (representing 19.99% of our fully diluted outstanding share capital) and approximately 18.0 million shares will be held in the Trust for Borse Dubai's economic benefit until disposed of by the Trust.

On September 26, 2007, Borse Dubai announced that it raised its cash offer to SEK 265 for each share in OMX. As a result, Nasdaq agreed to increase the cash component of its agreement with Borse Dubai by SEK 1,206 million (approximately $185 million) to up to SEK 12.6 billion (approximately $1.9 million), corresponding to SEK 10 per OMX share, of the total increase of SEK 35 per OMX share. As of September 26, 2007, the total consideration proposed to be paid by Nasdaq is equivalent to $4.2 billion. No other material provisions of the definitive documents were changed." (p.35, Company 10-Q, Nov/09/2007)

Important Disclaimer

Please read this information before reading this report.

This report has been written by MBA students at Yale School of Management in partial fulfillment of their course requirements. The report is a **student, and not a professional,** report. It is intended solely to serve as an example of student work at Yale School of Management. It is not intended as investment advice. It is based on publicly available information and may not be complete analyses of all relevant data. If you use this report for any purpose, you do so at your own risk.

YALE UNIVERSITY, YALE SCHOOL OF MANAGEMENT, AND YALE UNIVERSITY'S OFFICERS, FELLOWS, FACULTY, STAFF AND STUDENTS MAKE NO REPRESENTATIONS OR WARRANTIES, EXPRESSED OR IMPLIED, ABOUT THE ACCURACY OR SUITABILITY FOR ANY USE OF THIS REPORT, AND EXPRESSLY DISCLAIM RESPONSIBILITY FOR ANY LOSS OR DAMAGE, DIRECT OR INDIRECT, CAUSED BY USE OF OR RELIANCE ON THIS REPORT.