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Intercontinental Exchange, Inc. (ICE)

Q4 2014 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello and welcome to the Intercontinental Exchange Fourth Quarter 2014 Earnings Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Kelly Loeffler. Ms. Loeffler, please go ahead.

Kelly Loeffler

Senior Vice President, Corporate Communications, Marketing & Investor Relations

Good morning. ICE's fourth quarter and full-year 2014 earnings release and presentation can be found in the Investors section of the ice.com. These items will be archived and our call will be available for replay.

Today's call may contain forward-looking statements. These statements, which we undertake no obligation to update, represent our current judgment and are subject to risks, assumptions and uncertainties. For a description of the risks that could cause our results to differ materially from those described in forward-looking statements, please refer to our 2014 Form 10-K, which we filed this morning.

In addition to GAAP results, we also refer to certain non-GAAP measures, including adjusted income, adjusted operating margin, adjusted expenses, and adjusted EPS. We believe our non-GAAP measures are more reflective of our cash operations and core business performance. You'll find a reconciliation to the GAAP term in the earnings materials, an explanation of why we deem this information to be meaningful, and how management uses these measures.

When used on the call, net revenue refers to revenue net of transaction-based expenses; adjusted net income refers to adjusted income from continuing operations; and adjusted EPS refers to adjusted diluted continuing operations earnings per share.

With us on the call are Jeff Sprecher, Chairman and CEO; Scott Hill, Chief Financial Officer; and Chuck Vice, President and Chief Operating Officer. I'll now turn the call over to Scott.

Scott A. Hill

Chief Financial Officer

Thank you, Kelly. Good morning, everyone, and thank you for joining our call today. I'll begin on slide 4 which highlights our 2014 performance.

During 2014, we achieved our ninth consecutive year of record revenues and adjusted earnings. While volume declined 16% over the prior year, net revenues grew 3% on a pro forma basis to $3.1 billion thanks to growth in trading and listings revenues at the New York Stock Exchange as well as growth in data services and CDS clearing.

In addition, we achieved over 50% of our synergy target by the end of 2014 and adjusted operating margins expanded to 55%. This combination of revenue growth and margin expansion enabled ICE to deliver 15% adjusted earnings growth in 2014 and helped us generate operating cash flows of $1.5 billion, more than double 2013. These record earnings and cash flows combined with the IPO of Euronext enabled us to significantly reduce our

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leverage, return nearly $1 billion of capital to the shareholders, and invest over $0.5 billion in strategic acquisitions.

Now let's turn to slide 5 where I'll briefly highlight our fourth quarter results. Adjusted earnings per share for the fourth quarter rose 30% to $2.59 per share. Net revenues grew 10% on a pro forma basis to $800 million, including record data services revenues, strong CDS clearing revenues, and double-digit growth from our NYSE trading and listings business.

Adjusted expenses of $340 million came in below guidance as we continue to realize synergies on an accelerated basis and adjusted operating margin was 58%. Currency impacts, which are part of running a global business, were negligible as most of our revenues and particularly those where we are growing are dollar denominated.

Our tax rate for the quarter on an adjusted basis was 32%, which reflects a larger U.S. profit mix and a few year-end cleanup items that impacted the quarter. As you'll see in our guidance provided in the appendix, we expect the shift to more U.S. profit to result in a 2015 tax rate of 28% to 31%.

Let's move to slide 6 where I'll detail fourth quarter revenues and expenses. On the left side, you can see that net transaction and clearing revenues totaled $479 million. Data services revenues reached a record $174 million, including contributions from SuperDerivatives and ICE Benchmark Administration. Our listings revenues generated a record $95 million, which was up 9% compared to the prior fourth quarter on a pro forma basis. Our U.S. cash and equities options business grew 14% on a pro forma basis to $95 million. Other revenue contributed $52 million in the quarter.

You will notice that we have made changes to the way we report our data, listings and other revenues. We have moved data delivery services into the data services revenue line and corporate governance services into the listings revenue line. We believe these changes provide much greater transparency regarding services closely associated with our data and listings offerings. The current and prior year have been updated to reflect these changes and additional information is provided in our 10-K.

The right side of slide 6 shows our expense details. Fourth quarter adjusted expenses were $340 million. Compensation and professional services expense each came in lower as we continue to realize the benefits of our integration plans and from our focus on reducing the outsize legacy use of contractors and consultants at the NYSE. We also saw some benefit in the fourth quarter from completing the Liffe transition in November, and a year-to-date true-up of tender regulation fees.

Next on slide 7 I'll detail our fourth quarter derivatives performance. Total futures and options revenue was $335 million. While volume declined 11% during the quarter, total revenues grew 7% on a pro forma basis with Brent revenues up 31% and natural gas revenues up 5%. The overall revenue growth was enabled by the diversity of our product offerings and improved revenue capture across all categories: energy, ags and financials.

And importantly, strong trends and open interests continued across Brent, other oil, equity derivatives, and our non-Euribor rates products through year-end. Brent open interest rose 50% year-to-year to a record 3.8 million contracts. Other oil open interests grew 23% year-to-year. Our non-Euribor open interest grew 27% and equity derivatives open interest was up 8% over the prior fourth quarter.

Finally, as noted in our January volume release yesterday, volumes across many of our asset classes are solid. We reported monthly ADV records for total energy, Brent, and UK Nat Gas futures as well as WTI options.

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Our Brent ADV grew 42% due to continued oil price volatility and we established another OI record at 4.3 million contracts. Other oil volume, which includes WTI, heating oil and RBOB, grew 51% over the prior January. While natural gas ADV was down against the difficult compare, January was the second highest volume performance in the past 10 months. Most importantly, we estimate that January revenues increased versus last year as strength from data and listings revenue along with growth in commodity and UK rates volume helped mitigate the impact of continental European interest rate volume declines.

Moving now to slide 8, I'll walk through our record quarter in OTC clearing. CDS revenues for the year were a record $97 million, an increase of 23% year-over-year. We added several new products, including the Markit iTraxx Senior Financials index and new sovereign instruments. 2014 buy-side activity increased 90% and clearing of European instruments at our U.S. clearing house, ICE Clear Credit, rose 124%. In fact, 40% of the $7 trillion of buy-side gross notional cleared in 2014 came from European buy-side customers clearing through our U.S. CDS clearing house.

To continue to serve the growing demand we are seeing from European clients, given the uncertain European regulatory landscape, we have now expanded the hours of operation in our U.S. clearing house to open at 3:00 a.m. Eastern time. We believe the breadth of products that we uniquely offer and the capital efficiency that we provide via our portfolio, margin and capabilities will continue to attract global CDS customers to our U.S. clearing house.

Slide 9 reflects the strong performance of the New York Stock Exchange. We generated cash trading revenue of $188 million in 2014, an increase of 6% compared to the previous year on a pro forma basis. And importantly, our market share has notably strengthened and our revenue capture has increased. In addition, we continue to work to enhance the efficiency of our equities trading business by rationalizing the five technology platforms on which our exchanges operate. I'll also note that NYSE's trading volume was up 19% year-to-year in January.

The lower left chart at the bottom of slide 9 reflects the New York Stock Exchange's fourth year of leadership in global listings. For 2014, we had a record 129 IPOs, and we led in technology IPOs for the third consecutive year. In aggregate, our customers raised $183 billion in total global proceeds on the New York Stock Exchange, which is more than the next two exchanges combined. The NYSE's hybrid market model and transparent IPO platform continue to attract global companies of all sizes and industries. Across data, listings and trading, the New York Stock Exchange is growing and proving its operational efficiency and generating significant cash.

I'll walk through expense synergies on slide 10. On this slide, you can see an updated timeline on expense synergy realization. We realized nearly $290 million, or well over 50% of our targeted synergies as of the end of 2014. This was largely due to the seamless integration of our two companies, the divestiture of non-core businesses, and an accelerated reduction of contractors and outsourced services during the fourth quarter. In 2015, we expect to realize another $110 million to $115 million in synergies as a result of the completion of the Liffe transition and continued efforts to complete the integration of NYSE corporate operations. We expect to enter 2016 on a run-rate at or in excess of $450 million in synergies and we have a clear path to achieve the total $550 million of synergies entering 2017, as we deploy the NYSE technology platform and finalize the consolidation of our real estate footprint.

Our expense guidance at the top of slide 10 reflects the 2015 incremental $110 million to $115 million in synergies, offset by roughly $20 million to $25 million in investments in the core business. In addition to reducing our existing expense base by roughly $90 million, we will add $40 million to $45 million in expenses related to our recent acquisitions. These expenses will be more than offset by incremental revenues of $50 million to $55 million. We have provided additional guidance in the appendix of this presentation.

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I'll wrap up my remarks on slide 11 with an update on our strong cash flows and capital structure. Operating cash flows grew to a record $1.5 billion in 2014. At December 31, we had over $650 million in net unrestricted cash and short-term investments. Total net debt was $3.2 billion and our adjusted debt to EBITDA was 1.7 times. We used our strong cash generation during 2014 to reduce our debt by nearly $2 billion for strategic growth investment and to return nearly $1 billion to shareholders including roughly $300 million in dividends and over $640 million in share repurchases. Our share repurchases continued in January and this morning we announced a first quarter dividend of $0.65 per share.

Uniquely in our sector, we have consistently presented our return on invested capital alongside our earnings and cash measures because we believe it is an important indicator of value creation. As we averaged in the full impact of the NYSE acquisition during 2014, our ROIC reached its nadir at 6.5%. We are committed to generating revenue growth and a lower expense base to increase our ROIC above our cost of capital by 2016 and then to more traditional levels over time.

2014 was a year of integration during which we accelerated the pace of synergy realization, grew earnings double-digit, generated record operating cash flows, and advanced our growth initiatives. That momentum will carry over into 2015 as we generate $100 million in incremental organic revenue solely from our data and listings offerings, even while we reduce our expense base by approximately $90 million excluding acquisitions. That together with the incremental profits we will generate on investments in our strategic acquisitions, auspicious January revenues and our vigilant focus on the needs of our customers in an evolving regulatory environment gives us confidence that we will once again generate double-digit earnings growth and strong returns for our shareholders during 2015.

I'll be happy to answer any questions during Q&A, but for now I'll hand the call over to Jeff.

Jeffrey C. Sprecher
Chairman & Chief Executive Officer

Thank you, Scott. And good morning to everybody on the call. We're pleased to report these strong results today, which are what we committed to do as a growth company. Our earnings growth in the fourth quarter and for all of 2014 outperformed that of the S&P 500. This demonstrates how we've evolved our business to ensure that we remain levered for long-term growth trends. We are well diversified and we continue to invest for futures earnings growth by serving our global customers through clearing, capital raising, liquid markets, and data services. We've done this alongside the aggressive operating objectives to grow and integrate to drive value for our customers and our shareholders.

On slide 12, you can see that we achieved our strategic objectives for 2014. This was an ambitious set of initiatives that required significant resources and organizational change. For example, our teams across technology, regulation, sales and operations worked with the industry over the last year to transition the Liffe Exchange to ICE Futures Europe. This milestone allowed us to streamline our markets and get closer to new customers. And we immediately began building out our capabilities in our new complex of Liffe futures markets across rates, soft commodities, and equity derivatives.

Moving now to slide 13, we've laid out five of the areas that we believe will enable us to again deliver double-digit earnings growth in 2015. We have a strong track record of improving the performance of acquired businesses, as you can see in our results today. We curated businesses acquired from NYSE by shedding low margin parts of their technology division, while strengthening their core listings, trading and data operations. This means that we expect to realize both efficiencies and revenue opportunities, enabling us to grow through a range of trading volume environments. Our opportunity set spans a number of high quality areas, ranging from a significant

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lowering of our expense base to upside in our markets for energy, agriculture and financials. That alongside our growing and predictable listings and data services businesses creates meaningful earnings growth opportunities over the near and long term.

I also want to note some areas that are impacting our customers, which primarily relate to ongoing regulatory reform. Where our customers face challenges, we see opportunities to help them meet their regulatory requirements in an innovative and capital efficient manner. An example of this was our response to the need for swaps clearing in the credit markets during the financial crisis. This is now nearly a $100 million a year business for us.

The [ph] paths of (16:45) global regulatory reform are diverging and this continues to reinforce our model. In 2009, under the IOSCO framework, countries agreed to implement consistent regulations that would prevent regulatory arbitrage and address those imbalances in regulation that contributed to the financial crisis. Five years later, for example, there still remains a divergence between the U.S. and Europe. This is why our customers are telling us that the ability and capability of jurisdictional options for trading and clearing is increasingly important, and why you've seen ICE as well as other major exchange and clearing groups investing in multiple regions. And as Scott highlighted in his remarks, right now cleared swaps positions are migrating from Europe to the U.S. I believe that Asia will be the next clearing magnet, and alongside with ICE Clear Singapore you're seeing the other major exchange groups following us in that direction.

The impacts of increasing regulatory constraints with Dodd-Frank, EMIR, Basel and bank capital rules paired with the economic challenges of the eurozone create uncertainty that drive the need to hedge, and you can see that in our foreign exchange market during the month of January where volume was up 93%.

I'd now like to provide more detail on a few of ICE's 2015 growth initiatives, beginning on slide 14. First, our leading crude oil markets. The ICE Brent contract recorded its 18 consecutive year of record futures and options volume. When we acquired the International Petroleum Exchange in year 2001, we had an approximate 30% market share in global crude oil futures trading. Today we've grown market share to 54%, and we've accomplished this despite aggressive payments for trading volume being made by competitors. In the fourth quarter, ICE Brent's open interests surpassed that of NYMEX WTI for the first time in the contract's 27-year history.

Our oil markets continue to benefit from strong, long-term secular trends towards hedging and risk management, which have overwhelmed the cyclical headwinds year-after-year. And the moves in the price of crude in recent months again demonstrate the central role that our markets help manage price risk, whether prices are rising or are falling. Based on the forward price curve for December 2015 delivery, Brent futures prices are over 15% above today's prompt month prices. However, there are still many in the market today that believe oil prices could decline by this same percentage. These divergent views suggest that the only consensus is an expectation that crude prices will remain volatile.

And there are a number of factors that point to Brent's ability to continue its long-term growth trend. First, open interest is at record levels and rising. Continued economic and geopolitical uncertainty is causing global participants to continuously revise their oil price expectations. And secular trends towards hedging, including ICE's broad range of 400 related oil contracts, position us for continued leadership in the global energy markets.

In January, Brent volume was up 42% year-over-year, and our Brent options business continued its growth, in fact, just yesterday setting another volume record. Our Brent open interest reached a new record, up 10% from the end of December. And finally, we completed the transition of the distillate market to our new gas oil specification in January, providing a greater range of hedging opportunity for more market participants. In January, our gas oil daily volume increased 9% year-over-year.

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Moving on to slide 15, I'll provide more detail on our global natural gas trading and clearing activities, which in 2014 comprised about 6% of our total revenues. When we acquired the Endex Exchange in 2013, we anticipated the move towards more exchange trading and clearing of European natural gas products. This has, in fact, materialized as shown in the revenue chart on the right side of the slide. Our natural gas revenue increased 5% during the fourth quarter of 2014 as a result of the rising demand for exchange trading and clearing in European markets. We continue to launch new products and now cover natural gas markets in four countries in Europe with more to come in 2015.

Our North America natural gas markets have a strong base of participants and we recently announced six new products there. There's increasing work in Congress this year on the potential for more exports of U.S. natural gas in the form of LNG and could be as soon as late 2015. So we continue to position ourselves for the globalization of the natural gas markets.

Moving now to slide 16, I'll update you on our European rates complex. The near zero interest rate levels in the eurozone impacted the volatility and volume of our Euribor contract, particularly in the second half of the year. The acquisition of this flagship contract which accounted for only about 4% of our 2014 revenue, however, has facilitated our rapid expansion into broader areas of interest rate trading and clearing. We continue to grow our UK interest rate complex, including Short Sterling, where daily volume grew 10% and open interest rose 34% during 2014. Similarly, volume for our UK Gilt contract increased 30% and open interest increased 10% over the prior year.

So on slide 17 you can see how we're leveraging our leading European interest rate position to build out a broad complex for risk management. Last spring we introduced 20 new futures contracts which enable us to cover more durations and more geography. Our products and services in the interest rate space continue to evolve as we introduce customer driven solutions during this dynamic monetary policy landscape and we hold a strong position to serve these markets as expectations for rates moves vary.

Moving to slide 18 I'll provide more details on our comprehensive data services business. By combining ICE's data business with the data business that we acquired and reorganized from NYSE Liffe and SuperDerivatives, we've increased the markets that we cover. Together with our organic expansion into the provision of regulated benchmarks with ICE Benchmark Administration, we're building a powerful financial information footprint that leverages the strength of our markets, customer distribution and technology.

In the fourth quarter, 40% of ICE's revenues were generally recurring, as you saw on slide 6. This is up from just 11% in 2011. As the demand for high quality, low-cost data services rises we're well positioned to grow alongside this macro trend. ICE Benchmark Administration, which launched one year ago today, with the supervision of LIBOR. More recently, ICE Benchmark Administration took over the management of the ISDAFIX benchmark and in March we'll begin establishing the gold price. We're investing to redesign and retool these global benchmarks which have trillions of dollars of assets tied to them and we're working with the industry to develop technology-driven processes to strengthen the competence and transparency of a growing range of flagship benchmarks upon which businesses and consumers can rely.

Our recent SuperDerivatives acquisition was particularly strategic. It not only provided us with a rich set of OTC data and analytics but brought to us a specialized data team that strengthens our competencies for clearing complex financial products. The SuperDerivatives Desktop affords us a unique platform for growth given the already widely accepted WebICE platform, on which our markets are delivered each day. Couple this with the thousands of companies that we touch for trading, clearing and listing and you have a powerful and deep customer base for those that we are trying to tailor our new data services.

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I'll finish my prepared remarks on slide 19 with a chart that reflects the results of our team. By bringing innovative solutions to the challenges faced by our industry, ICE has consistently delivered growth in earnings regardless of the business cycle for every year that we've been a public company. Long-term ICE shareholders and employees have benefited from the 19% compound annual growth in earnings that our vision and execution have delivered.

Today, we operate 11 exchanges, a global data services business, the preeminent equity listings franchise and six clearing houses with our seventh clearing house launching later this year. This footprint provides us with flexibility when considering our customers' global needs as is illustrated by the way we've been able to respond to clearing business moving from Europe due to regulatory differences and potential clearing capital increases there. We reacted by simply altering our strategic investments in our established global outposts. This validates o ur flexible global model and informs us on how we approach 2015 and beyond.

I also want to note the strong progress at the NYSE, the flagship exchange for raising global capital and equity trading. For example, last week we hosted Shake Shack for their very successful IPO. As an entrepreneur, I know firsthand that these are seminal moments for individuals and companies. This is why we continue to work on market structure reform, to improve the environment for capital market's growth on behalf of companies and their investors and importantly for ICE's investors, we're proud to highlight the strong contributions that this business is now delivering as a result of our efforts to create efficiencies and optimize areas that continue to have strong potential, while generating meaningful U.S.-based cash flow.

We had significant strategic and operational accomplishments in 2014, completing four acquisitions, returning nearly $1 billion to our shareholders, reducing nearly $2 billion in net debt, and realizing expense synergies on an aggressive time line. But we're not finished and we have many work streams underway to continue the evolution of our business. We're in an unparalleled position to meet the rising demand for capital efficient risk management, capital raising, data distribution, and new product development around the world.

On behalf of everyone at ICE, I'd like to thank our customers for trusting us with their business and for collaborating with us on their evolving requirements during a very dynamic time. I'll now ask our operator, Keith, to conduct the question and answer session.

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QUESTION AND ANSWER SECTION

Operator: Yes, thank you. We will now begin the question and answer session. [Operator Instructions] And the first question comes from Richard Repetto with Sadler O'Neill.

Richard H. Repetto
Sandler O'Neill & Partners LP

Q

Yeah. Good morning, Jeff. Good morning, Scott, and congratulations on the super strong quarter here.

I guess, Jeff, I've got to congratulate you. Last quarter's call, crude oil was going through $80 and we talked about whether that was good or bad and you emphasized the volatility side and it's certainly playing out in volumes now. But, I guess, I'll update the question. As oil, it's highly volatile, but it's now at $50 , and I know you spent a fair amount on the prepared remarks but the question continues to come up, does the low oil price, is it going to dampen hedging demand? Or is it offset by the volatility you've spoken about last quarter?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer

A

Thanks for the question, Rich. I believe that we're going to go through a really volatile time here based on talking to our customers, particularly many of the drilling and integrated oil firms trying to figure out the dyn amic for the next few years. So we see strong volatility ahead which should drive volume growth. I think underpinning your question is concern that price in U.S. natural gas has been at historically low levels and volumes on ICE are reduced in the U.S and I think people somehow try to correlate that but what many don't recognize is that the U.S. natural gas business is really a regulated business where the end product natural gas goes through local distribution companies that are regulated or electric utilities to make electric power which are regulated and have the ability to pass through costs, in many cases, to their customers and therefore only hedge when there is extreme volatility and work with their public utility commissions to come up with a program that they know can be passed through. That is very different than in the oil industry where oil products become petroleum fuels, chemicals, other things that go into the free market and therefore the supply chain all along there has gotten used to hedging. And, in fact, we continue to see increased hedging activity to the point that Scott Hill and I have been meeting with senior managements of consumer-driven firms that heretofore hadn't hedged and actually even at their senior level want to talk about how to do that. So we see great differences between the oil business and the natural gas business, which I think causes some of that concern.

Richard H. Repetto
Sandler O'Neill & Partners LP

Q

Got it. Understood. The volumes have been certainly super strong here to date this year. I guess, then, my one follow-up and this would be more for Scott, I guess. You're guiding to significant growth in data services and listing revenue. And could you be, I guess, or could you quantify the contribution from ICE Bench mark Administration, Scott? Is that the significant driver here?

Scott A. Hill
Chief Financial Officer

A

No, Rich. It is a significant driver but it's not the significant driver. If you look across the data business, it's really a multitude of factors that's driving it. It's more customers. It's us continuing to add different products and different information that our customers want to buy to package that information up in a way that creates more value for

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those customers, value that they're willing to pay us for. The ICE Benchmark is clearly a part of it and is embedded in that $100 million increase. And then, on top of that, the $50 million to $55 million I talked about from acquisitions, a large part of that, in fact, the vast majority of that is SuperDerivatives.

So if you look at our data line, there are any number of growth avenues that are embedded in that. And it's one of the reasons why we went ahead and put the guidance out there because we're very confident that with the additional customers, the growth in ICE Benchmark, the contribution from SuperDerivatives, that particular revenue line is going to generate significant growth for us this year.

Richard H. Repetto
Sandler O'Neill & Partners LP
Q

The $100 million, I thought, excluded SuperDerivatives. And maybe the question is what percentage of the $100 million growth in that line will come from ballpark from ICE Benchmark?

Scott A. Hill
Chief Financial Officer
A

Yeah. Again, I'm not going to get into the specifics on ICE Benchmark, Rich. But to be clear, the $100 million is organic and then on top of that is the $50 million to $55 million from the acquisition.

Richard H. Repetto
Sandler O'Neill & Partners LP
Q

Understood. Okay. Congrats on the strong quarter, guys.

Operator: Thank you. And the next question comes from Christian Bolu with Credit Suisse.

Christian Bolu
Credit Suisse Securities (USA) LLC (Broker)
Q

Good morning, Scott. Good morning, Jeff.

Jeffrey C. Sprecher
Chairman & Chief Executive Officer
A

Good morning.

Scott A. Hill
Chief Financial Officer
A

Good morning.

Christian Bolu
Credit Suisse Securities (USA) LLC (Broker)
Q

So my question is on regulation. On capital requirement, I do appreciate it's difficult to quantify since all the rules are not clear but it would be useful to get maybe a ballpark estimate in terms of how you think about new requirements with things like EMIR Compliance, possible skin in the game as we look into 2015 and cash uses?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer
A

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This is Jeff. Let me first take the high-level answer and lay out sort of our thinking on it and then Scott can give you the details, and clean up my answer, frankly.

But there are two, you mentioned EMIR, and what's happening in the market is there are two clearing models that seem to be evolving. There's a clearing model that EMIR legislation is driving towards in Europe which is a different model than the model that will exist everywhere else in the world and those models, ultimately are going to result in two different choices for customers and two different capital strategies.

Starting with Europe. Europe is moving towards more open access to clearing houses and towards a model that used to exist where capital was provided by a group of banks that largely were intermediaries in transactions that were happy to provide their balance sheet to their customers because they were monetizing the bid/offer spread and other ways of serving their customers. So balance sheet went into these utility-oriented clearing houses.

The EMIR legislation is on a collision course with the implementation of Basel rules and other bank capital rules around the world and we don't believe that those bank balance sheets are going to be available in the way they were in the past. That then suggests, and frankly the banks are becoming increasingly more an agency model, not capturing the bid/offer spreads as their proprietary business is, due to regulatory reasons shed.

So that means that capital in those clearing houses are going to have to come from one of two places, either the owner of the clearing house or the end user. As an owner of those kinds of utility clearing houses, ICE shareholders are not going to put capital at risk for business that is brought by competitors. And our competitors are not going to put capital at risk for business that is brought by ICE. Shareholders are not going to comingle their capital basis to help competitors which means that, ultimately, the capital in Europe is going to largely come from the end users. Now Europe recognizes this and has provided, under EMIR, for more segregated accounts. That means that an end user will be asked to basically put money in a segregated account, which will back their position. And as they do that, what we're going to find is that the large institutional fund managers are not going to be able to mutualize their individual funds with other manager's funds. So we will be putting into place positions where fund managers will have to capitalize, significantly capitalize, individual accounts in order to be able to trade. Europe believe that that's a good idea and that there will be more choice in how to trade and, I guess, that they believe that end users are willing to pay a lot more for that privilege.

Outside of Europe, you have the same dynamic with the banks. We all relied on bank balance sheets for many, many years, but those balance sheets are also becoming constrained. And so, what you've seen is ICE and our competitors have put more skin in the game. ICE really started this when we built our first clearing house in 2007, but we put money in the default fund that sits in front of the default fund and when you go through the mechanics of bank capital charges, what you find is that if we sit in front of them, we dramatically reduce the charges that they have to take to contribute. And so what you've seen is, over time, ICE has increased capital going into our clearing houses, and many of our competitors have too, and it's put relief in the system for bank balance sheets. I suspect that that is not over. We haven't fully seen the impact of all of the bank capital rules. Banks, right now, are going through another round of internal analysis as they have more [ph] clearly (37:45) in the rules and then, clearly you're going to have 2017 come into effect.

So, outside of Europe, what we've seen is – frankly we offer segregation in Europe right now, and what we have seen, and what we have highlighted on the charts here is that our European customers don't really want to put that capital up and have preferred to move their positions out of Europe to the U.S. or elsewhere. And as I've said in prepared remarks, we are rapidly building [ph] also (38:20) in Asia and I believe that Asia will be a magnet. We've seen one of our competitors building a Hong Kong clearing house, another one of our competitors also building a Singapore clearing house. So you're going to see this magnet that's going to pull positions also to Asia.

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I don't think our shareholders should be particularly concerned about this. The return on invested capital that, should we put more money into a default fund, will be significant, it will attract business and these are growth areas for us and they are areas that we're happy to invest in.

One of the things that Scott put in his prepared remarks is that we now open our U.S. clearing house for OTC swaps at 3:00 in the morning. That's an additional investment that we made in infrastructure, in personnel, in technology because we're seeing non-U.S. business want to have access to that clearing house because of the kinds of investments that we're making, and it really is attracting flow. So we look forward to higher ROIC returns from these businesses.

Scott A. Hill
Chief Financial Officer
A

The only thing, Christian, I'd very quickly add is the regulatory capital required is not uncertain at all. We know exactly what that is. It's disclosed in our K. There's probably another $130 million or $140 million that we're going to put into ICE Clear Europe from a regulatory capital standpoint and that's it, and that's accounted for.

And then, the point to Jeff, to the extent we determine that it's appropriate to invest more in our guarantee fund, which we certainly are looking at, that again is not anything that gives me any concerns with regards to our overall capital. And I don't think it will restrict us from doing some of the other things that we've been doing in terms of capital return.

Christian Bolu
Credit Suisse Securities (USA) LLC (Broker)
Q

Yeah. No. I'm clear on the EMIR one. I was actually more looking for some sort of thoughts in terms of numbers for the guarantee fund. But I hear you guys loud and clear, and thanks for the very, very detailed response. My follow-up question is really on the NYSE business. Just given all the changes you are proposing, Jeff, to market structure, the rule strengthened the listings business, technology rationalization. Curious as to where you think operating margins for that business can now ultimately get to? And then secondly, a follow-up on that would be just strategically how important is this business to the very long-term future of ICE?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer
A

It's a good question. I'm not going to give you a specific target. But I think people will be surprised that we really believe the NYSE cash equities business can operate at very high operating margins. And I think we – in fairness, the market watched NYSE and its other U.S. competitor lose market share over a period of time and have to change their business models. But we now see market share growing, we see the trends increasing. And we're putting a business underneath that, an operational business underneath that that will deliver very, very high returns. We can see it already. It's already – it already really improved our performance in the last part of 2014. We're projecting even more for 2015 and 2016.

One of the things if you look at the circular chart that Scott laid out on slide 6, where we show our breakup of revenue, you'll see that what we have really built over the last year or two inside ICE is a very, very big data distribution business, so the point that about 40% of our revenues are no longer variable revenues. These are high-value recurring revenues, predictable, where, I believe we are really providing interesting things and have some pricing power and the ability to massively expand our distribution into that space. And certainly, data and offshoots of the NYSE, you can see is contributed in there. So we watched and monitor that business. We're certainly investing in it. It's why we bought SuperDerivatives, for example. And we'll be rolling out more products

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and services over the next few years in that area. And I think that will help determine how strategic these businesses are for us.

Christian Bolu
Credit Suisse Securities (USA) LLC (Broker)

Q

Great. Thanks again for the detailed response and congrats on a very strong quarter.

Operator: Thank you. And the next question comes from Ken Worthington with JPMorgan.

Kenneth B. Worthington
JPMorgan Securities LLC

Q

Hi. Good morning. Since we're on the topic of EMIR, I believe 2015 represents mandatory clearing obligations for certain interest rate swaps. And I think interest rate swaps clearing [ph] made it into (43:14) slide 13, so a couple of questions on it. I guess, first, is it possible to give us your view on sizing the opportunity? I guess, what I'm looking for is, for ICE and given the competitive nature of interest rate swap clearing, can this be a bigger business than the credit swap business for you, again it's over time? And then, second, just where do we stand on developing and executing your strategy to clear interest rate swaps? And are there any milestones that you can share for us in terms of interest rate clearing? Anything that you have for goal for 2015 or 2016 or 2017 that's worth sharing.

Jeffrey C. Sprecher
Chairman & Chief Executive Officer

A

That's a tough question. First of all, we haven't announced anything along those lines. So it's the short answer. But what we are doing is we have rolled out a number of futures products that we think will attract standardized business that we think can be listed and that can replace a much of what was done in swaps world, including our acquisition of the Eris patent abilities, capabilities to launch interest rate swaps in Europe based on that as well as credit swaps. So you've seen – we have a number of swap futures products and what you've seen us do so far is to use our current infrastructure, our current delivery mechanisms and our current customer base to bring more products along that capability.

I've mentioned that, in my prepared remarks that we bought SuperDerivatives, which really has an amazing employee pool that understands very, very complex derivatives and we've been working with them to try to figure out how best to utilize their expertise in the clearing houses. I think over time, to answer your question about competition, clearing houses that really have invested in the ability to model and see risk and manage risk to the benefit of the end users that pass muster with the regulators and our board and shareholder base are going to be big winners, and that's what you've seen us investing in over the last few years. And so, I think the growth trend around that will continue.

Kenneth B. Worthington
JPMorgan Securities LLC

Q

Is it a big opportunity? Like, should we be focusing there? Like it seems like, again, it was – it kind of slipped into slide 13. Like, you were early in credit, you dominate credit, it's a big revenue generator. Can we be – can things be as good for you in interest rate swaps eventually as they are for you in credit swaps over time?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer

A

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Well, the interest rate market is huge and complex and touches all kinds of -- actually, there's all kinds of submarkets within the interest rate market. But right now, we're living in the Western world, in zero interest rate environment for all intents and purposes, in some cases, negative interest rate environment. Nobody needs to hedge negative interest rates. And so, what – the size of that market is going to be very, very much driven by monetary policy. But I think I've mentioned on this call before that one of the things that happens in the low interest rate environment is that people borrow money and they put it to work in all kinds of different places, and it's very hard to know where it's going. And when interest rates do rise, and I suspect they will eventually rise here, people that have invested in low interest rate activities are going to want to hedge those out quickly. And I think you'll see a dramatic rise. In fact, here in the U.S. interest rate environment, it's been incredibly active, even though it's very, very unclear what our monetary policy in the U.S. is really going to be. But just the prospect that it might change has really gotten tremendous volumes, volumes that in many cases are bigger than 2007 top of the market kind of volumes. So I think these are big opportunities, at the right moment in time, with the right products set, and that's what we have been spending a lot of time with the pretty sophisticated group now that we have, analyzing and trying to position ourselves for.

Kenneth B. Worthington
JPMorgan Securities LLC

Q

Okay. Thanks. And for the follow-up, Scott, for listings revenue is up a bunch. Did 4Q include pricing changes or did the pricing changes not kicked in until 2015?

Scott A. Hill
Chief Financial Officer

A

The pricing change will start on January 1. But can I – I would point out that a lot of the revenue growth in listings is really about the great listings year we had last year and the number of wins that we had. You saw it in the fourth quarter, as you said, tremendous fourth quarter really based on that performance. And as we roll into next year, that's the bigger factor, the far more relevant factor that's going drive revenue growth as you move through next year – or this year, sorry.

Kenneth B. Worthington
JPMorgan Securities LLC

Q

Awesome. Thank you very much.

Operator: Thank you. And the next question comes from Alex Blostein with Goldman Sachs.

Alexander V. Blostein
Goldman Sachs & Co.

Q

Great. Good morning, everyone.

Jeffrey C. Sprecher
Chairman & Chief Executive Officer

A

Good morning.

Alexander V. Blostein
Goldman Sachs & Co.

Q

Back to the oil topic for a second, so Jeff, thanks for the comments around volatility, all of that makes sense. I think the one interesting point here is, of course, growth in the open interest that we've seen in the oil franchise,

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even year-to-date up massively. Can you speak a little bit about the source of the growth in the open interest if you guys have seen a noticeable shift between the type of users that have come into the market now versus, let's say, a year ago? And how sticky do you think this is going to be at this kind of volatility backdrop?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer
A

It's a good question. We have really targeted our energy business at commercial users and so the growth in open interest has really been commercially oriented. And we found that that business is very, very sticky, I mean the commercial users are the ultimate hedgers and so they hold open interest and then they manage those positions over the long-term as things change. And so, we're really in a very luxurious position with respect to that particular franchise and how we've taken it to market and the results that we've seen in these volatile periods. It's partly why our market share in the global oil market is up, frankly.

Alexander V. Blostein
Goldman Sachs & Co.
Q

Okay. It doesn't sound like a major mix shift change there. Okay.

Jeffrey C. Sprecher
Chairman & Chief Executive Officer
A

Correct.

Alexander V. Blostein
Goldman Sachs & Co.
Q

And then a follow up for Scott. There's a lot of concerns in the marketplace regarding your guys' foreign exchange and currency translation exposure. It doesn't seem like it really made a difference in the fourth quarter despite the stronger dollar. But maybe talk a little bit about how we should think about it for 2015 on a pre-tax income basis if the dollar continues to strengthen against the euro and other currencies? How much is hedged, how much is not? What would be the impact?

Scott A. Hill
Chief Financial Officer
A

Yeah. Look, I think that concern was way overblown and I think it remains way overblown. As you saw in the quarter, it was almost a non-issue, effectively was a non-issue. The pound only was down 2% year-over-year in the fourth quarter and the euro a little bit more than that. As I said in my prepared remarks, we are predominantly a dollar based revenue company. We do have, clearly, some euro and pound exposures, but at the end of the day, it's very small in the scheme of things. And to the extent we've got balance sheet risks, of course, we hedge those. To the extent we've got the euro note, of course, that's naturally hedged with the euros we set aside to pre-pay it. So it was a non-issue in the quarter. I suspect it'll be a non-issue through the year and the reality is it's a part of running a global business. So to the extent that there is a significant move one way or the other, we've just got to manage through it and work our expense base to deliver the profit and that's what we intend to do.

Jeffrey C. Sprecher
Chairman & Chief Executive Officer
A

Maybe another way to think about it at a high level, the way I think about it is the commodity business around the world is largely dollar denominated and we just decided, years ago, to put our commissions in dollars. When we bought the Liffe Exchange, which is a British exchange, it's located in the UK and it had both euro and pound denominated contracts but because it's located in the UK, for many of its European currencies, it charged

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commission in pounds even if the currency was in a different. And we have expenses in pounds because we're still operating a large European business. So, we're very, very dollar denominated company.

Alexander V. Blostein
Goldman Sachs & Co.

Q

Yep. Makes all – thanks for clarifying again.

Operator: Thank you. And the next question comes from Michael Carrier with Bank of America.

Michael R. Carrier
Bank of America Merrill Lynch

Q

Thanks, guys. Hey, Scott, just on the guidance that you gave, I think it's on both, I would say capital and expenses. I just wanted to get a sense, when you think about capital deployment in 2015 and even 2016, the balance that we've been seeing in terms of the buy-backs, the dividend, acquisitions, you're still a good mix. And then in terms of the acquisitions that you gave as the revenue and expense that are coming on in the fourth quarter, I just wanted to get a sense, it seems like the margins are a little low in that business. When we think about it over the next couple of years, is it a revenue growth opportunity? Are there any synergies related to these acquisitions? I just wanted to see where those margins will shake out.

Scott A. Hill
Chief Financial Officer

A

Yep, those are good questions. The first answer, with regards to the capital deployment mix, I do think that thinking about it consistent with what you've seen in the past is the right way to think about it. And so I think you're exactly right on that. With regards to the profitability of the acquisitions, the one thing I would note is, as Jeff alluded to, we've got a terrific base of employees that came to us to do the SuperDerivatives acquisition, a number of them are working on initiatives that are going to show up outside the acquisitions themselves, whether it's work on additional clearing that will generate revenues et cetera. So I don't think you can look at the value of those businesses strictly in the expenses and revenues that are directly related to those businesses. You have to look at our overall revenues and the value they'll bring as we deploy the resources across the broader revenue opportunity we see.

Michael R. Carrier
Bank of America Merrill Lynch

Q

Okay. That's helpful. And then, Jeff, you kind of hit on this, but just getting back to oil, I think some of the push back that we end up getting is that when oil was at $100 there was a big reason for users to hedge, and at $50 maybe there's less of a reason. It seems like the data isn't backing that, and if you're someone that's running any type of a corporation that needs to hedge in oil, it probably doesn't matter. Meaning if it's at $50, more power to them and they can lock in at this price. I just wanted to get your sense when you're talking to the users, is that risk management change with where the price is or is it still a constant battle, meaning they're constantly trying to manage their business, hedge what they can protect versus if they have less control on it?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer

A

Well, it's a good question, but you always have to remember there's two sides on every trade, and so as oil prices are falling you have producers that want to lock in higher prices for sales before they fall, and are in the market with their marketing people aggressively trying to do that. The producers are making investments and often times

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have to hedge them in order to get financing and make a longer term commitment. So you have pressure on both sides to lock in prices and that creates the natural tension that then creates the price discovery process.

But long story short, every time there's volatility, to me it's like a hurricane that goes through Florida. After the hurricane goes through, people think about buying homeowner insurance when they've rebuilt their house and every time there's volatility, to the upside and to the downside, both sides of that equation, both buyer and seller think about after high volatility periods that maybe they should lock some in and that's to a certain degree what you see going on here. And it looks to us like we're going to be in a pretty volatile environment, you can turn on the TV or read the press and you can see pundits talking about their predictions of where oil prices are going to go in 2015, 2016 and 2017 already and based on the politics of the oil business.

Michael R. Carrier
Bank of America Merrill Lynch

Q

Okay. Thanks a lot guys.

Operator: Thank you. And the next question comes from Alex Kramm with UBS.

Alex Kramm
UBS Securities LLC

Q

Hey, good morning. I can't believe, but I'm going to fit in one more oil question, if that's okay. I think you answered a lot of different topics, but one more perhaps. When you think about the price of oil and maybe the investments that we've seen over the last decade or so, I think some folks have argued that what we're seeing right now is certainly a flushing out of some firms that have built up a lot, invested a lot and maybe they won't survive. So I'm just wondering if you're worried yourself about the investment cycle being maybe over for a little bit and maybe some firms that had been contributing to your core commercial growth going away, or not contributing the same kind of growth over time? Outside of volatility obviously being very good right now.

Jeffrey C. Sprecher
Chairman & Chief Executive Officer

A

Yeah, the way I'm thinking about it, which is a lay person, is that the more I talk to our customers, the more I've learned that the fracking wells that have really been responsible in the United States for this tremendous resource that we have, have a very short life. They degrade very, very quickly and it is not uncommon for a well to only last 18 months. And so, capacity, from the first day that the wells start, they're degraded. It is almost a given under that circumstance that you're going to see capacity coming out of the market, pretty quickly in the United States. And as you do that supply and demand will change its balance and, theoretically, prices may go up. And so, these are not oil wells like I grew up with, where Jed Clampett took a gun and shot it at the ground and oil came bubbling out and had a geyser that went straight up in the air. Oil is hard to get out of the ground and degrades quickly and needs constant reinvestment. So it'll be interesting to watch how the market readjusts. In that regard, that's why you see the forward pricing curve that I mentioned, already on the move up for future oil prices.

Scott A. Hill
Chief Financial Officer

A

And with forward-pricing curve up, open interest up, and as Jeff said earlier, our customer mix, we don't really see any big differences.

Jeffrey C. Sprecher
Chairman & Chief Executive Officer

A

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The other interesting just side note to that is that one of the benefits that we've had in the U.S. is very low natural gas prices, which also come from fracking. A lot of that natural gas is natural gas that's associated with oil fracking. It's not drillers that went looking for natural gas. It's drillers that went looking for oil and they get natural gas associated with it and they, basically, were pumping the gas out at low prices in order to get at high price oil. So the symbiotic nature of associated natural gas with oil is something that will also be interesting to watch to see whether there's price volatility in the U.S. natural gas markets.

Alex Kramm
UBS Securities LLC

Q

All right, great. And then maybe just to shift topics here for a second. The ICE Liffe integration, can you just talk a little bit more about, it seems like it's basically done, but maybe talk a little bit about how customers have reacted to it. I think the Liffe platforms; there were multiple platforms, now you have one platform, different customers. I mean, have you seen any benefit in terms of existing users on the ICE platform perhaps trading some of the interest rate product? Do you see any revenue benefits in the near term from what you've done here?

Scott A. Hill
Chief Financial Officer

A

It's a very good question. You're exactly right in that basically ICE – the Liffe business was subsumed into the ICE Exchange and is on all the ICE platform. But, before we could do that merger, we had to build out a lot of new technology in the ICE platform that users of the Liffe market had gotten used to that did not exist in our other markets. And so what we've done as a result of that have built out a lot more capabilities and flexibilities in the ICE matching engine and trading platform that we now have the opportunity to look at other markets and think about, okay, we've got this kind of interesting thing that we've built, where else can it be deployed? So the real benefit that we're talking about internally is a technology benefit that was something that we probably would not have built on our own.

We are seeing cross-pollinization. There are traders in the world that chase volatility regardless of asset class. There are people that can price options once they understand the data on the underlying, regardless of what the underlying is. And so what you've seen us do is cross pollinate our customer base, filled out our data set and historical data so that we can provide option traders that we know with information so they can back-test and try option strategies in new markets. So there's a lot of that going on right now. And where there are markets where there is not a lot of volatility, there are traders that have largely been sitting on their hands and those are traders that we've been targeting to bring over to our other markets.

Alex Kramm
UBS Securities LLC

Q

Okay. Very good. Thank you.

Operator: Thank you. And the next question comes from Chris Harris with Wells Fargo.

Chris M. Harris
Wells Fargo Securities LLC

Q

Thanks. Hey, guys. First question kind of a big picture one on volumes. Your business, like all the exchanges, has a lot of noise quarter-to-quarter, or even year-to-year given volatility and so forth. But if we just step back and think about the true organic growth of your franchise from a volume perspective, what do you think that number really is and what do you think would be a really realistic target to think about?

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Jeffrey C. Sprecher
Chairman & Chief Executive Officer

A

I guess I would push you to slide 19, which is the earnings per share that the company has delivered for a decade, and that's how we run the business. We don't run the business for volume, never have, I don't like it. In fact, there's some articles out today about us where we have shed some volume in our U.S. options, equity options market, that was not producing positive returns for us. We don't want negative volumes. We don't want to buy volumes and we don't care about volumes. We only care about earnings and so what we have done is we have followed customer trends on where to position ourselves, and increasingly what you're seeing is that there's a range of services that we're providing, including 40% of our business that is not even volume-centric any more to customers.

So, I would say to you that the objectives that I'm held to by our board that trickles down to everybody that's sitting with me in this room is that we are targeting double-digit earnings growth for our shareholders. And we do that by finding ways of serving customers whether it's volume or not. Whether it's positive volume or negative volume, we're making earnings growth. And I don't know what more to say other than we've got a very strong track record of doing that, and that's how we're motivated around here.

Scott A. Hill
Chief Financial Officer

A

Well, to just tie a bow around that, volumes were down 16% last year but revenue was up 3% and EPS were up 15%. If you look at our guidance, we basically guided you to an incremental $200 million of profit right off the top, which is double-digit earnings again. So as Jeff said, that's the measure to which we hold ourselves and that's the measure to which investors ought to hold us.

Chris M. Harris
Wells Fargo Securities LLC

Q

Yeah. No question you guys have a great record of the earnings growth. Quick follow-up on the interest rate complex. QE, in Europe, just announced we've seen volumes and open interest decline heading into that. As we sit here today, do you guys think where the current volumes are is kind of factoring a lot of that in? Or could potentially we see a bit of another leg down as QEs is formally launched now?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer

A

What's interesting is that it's – we look at our European business, it's the euro-denominated business that's been impacted. The sterling-denominated business in the UK, for example, has really grown. And if you look at our euro-denominated business as a percent of the revenue of this company, it's very small. So we are positioning ourselves for QE changes that add volatility that we think we can grow from what is a very low revenue base for us. So it's important to us, but whether it happens in 2015, 2016, 2017 or 2018, we can't predict and is not necessarily particularly relevant to the down side.

Chris M. Harris
Wells Fargo Securities LLC

Q

Got it. Okay. Thank you.

Operator: Thank you. And the next question comes from Niamh Alexander with KBW.

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Niamh M. Alexander
Keefe, Bruyette & Woods, Inc.

Q

Hi, thanks for taking my questions. I guess I wanted to go back to the options a little bit, Jeff, because, yeah, I was, and I'm not sure even if it's 4%, 5% of your earnings, not even the equity options, but the market share has been declining. And is it something that used to be that the New York Stock Exchange would have wanted to be one of the top three options exchanges? Is the view different now? If it's not, a significant profit contributor that you're not necessarily too concerned about being one of the biggest in the industry in that space?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer

A

Yeah, thanks for the question, Niamh. When we bought the company, there was a deal in place that had negative capture, but good market share. And we're just not interested in negative capture business. It's standing on the corner and handing out $5 bills of your shareholder's money, and that's not what we do here. And there are others that are interested in negative capture businesses and as I think I've said before, we are more than happy to send our money losing businesses to our competitors. They don't even have to steal them, we will, if they just call us, we'll arrange an elegant transfer to them.

And so this is a very calculated market share change on our part. This is not, while it's being discovered I think by people writing about it, the reality is, it is – the company is becoming more profitable, we are very focused on profitability. We have a very good relationship with the major market participants in the options space. We touch them across a whole range of options, not just equity options, because of the nature of the way those markets tend to be managed and hedged. And so we're looking at our business holistically and trying to maximize profit, improve our relationships with our customers and not destroy shareholder value. And I don't know and care where the volumes come out, whether we're the biggest or the smallest, I want to have run a company that's the best.

Scott A. Hill
Chief Financial Officer

A

I think you've seen most of the impact of those share changes flow through in the fourth quarter in January and I think it's likely we stabilize. You also noted the RPC was up well in January and just to be very explicit, that loss in market share had zero impact on our bottom line.

Niamh M. Alexander
Keefe, Bruyette & Woods, Inc.

Q

Okay. That's helpful. Thanks for clarifying. And then with regards to the whole kind of New York Stock Exchange part of the business, as it were, you're clearly still kind of quite deep in the integration, there's a lot to do this year specifically on that part of the business. And you're also making some noises and making some suggestions with respect to market structure change. But help me think about where this fits as part of the ICE group medium term and longer term, or maybe in what scenario would it make sense for a New York Stock Exchange to be independent again?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer

A

It's a good question. I mean, I woke up over the holidays to an article that somebody had predicted that we were going to sell the business in 2015 even though there's a lot of earnings per share growth that we are going to get out of that business over 2015, 2016 that we've laid out here. In that sense it's an important part of our shareholder story. The actual trading of stocks is only 5% of our revenues. I don't know that the trading of equities

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is ever going to be wildly profitable for anybody. It's highly competitive, it's highly fragmented, it's highly regulated and so – but the ancillary parts that come out of that, which is a fabulous listings franchise and data business, are growing and doing really well. And we've been able to change the trajectory of those and change the cost structure underneath those businesses.

So I don't know why we would get rid of that. I think our shareholders want to participate in the earnings growth of that business. Now once we reach a terminal value, I guess – we, as I mentioned before, we hold ourselves to growing earnings. If that business is a drag on us and we can't use it to grow earnings then it's completely insignificant. And unlike a lot of people in the exchange space, you've seen us shed businesses. We will curate where we go and modify what we do. And so it's hard to predict right now, but I can tell you at least for the next couple of years that that business is going to be a big contributor to our bottom line. So I don't have to think about it.

Niamh M. Alexander
Keefe, Bruyette & Woods, Inc.

Q

All right. Thanks so much.

Jeffrey C. Sprecher
Chairman & Chief Executive Officer

A

Thank you.

Operator: Thank you. And the next question comes from Brian Bedell with Deutsche Bank.

Brian B. Bedell
Deutsche Bank Securities, Inc.

Q

Hi, folks. A question for either Jeff or Scott. Thanks for the disclosure on the organic revenue growth, $100 million of data and listings. Maybe if you could talk a little bit also about organic growth from new contracts. Just a couple of days ago I think you launched 63 new contracts in Europe. It's something a long time ago you used to disclose about organic revenue growth from new contracts. Maybe just give us a sense of how you see that fitting into the organic growth picture over the next two years, three years?

Scott A. Hill
Chief Financial Officer

A

Yeah, it's a good question, you're right. It's a metric that we've talked about from time to time. As we look back into 2014, we were just under about $15 million of incremental revenue that we got from those new products. As we've talked about in the past, that drops straight to the bottom line. It's, give or take, a little bit, $0.10 or $0.11 of earnings per share we get from the new products that we've launched over time.

The other interesting statistic that I look back is if I look over the last five years, we've generated north of $130 million from those new products overall. So, as I've said many times in the past, the next 50, the next 75, it's unlikely that any one of those is driving $100 million, but it definitely adds up and there's very little incremental cost to launching those new products. We launched those new products into almost certain demand because the products we launch are ones our customers tell us they need. So it was a nice little adder in 2014. I suspect that will be the case again in 2015.

Brian B. Bedell
Deutsche Bank Securities, Inc.

Q

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And you think there's a lot of capacity to continue doing this on a regular basis going forward?

Scott A. Hill
Chief Financial Officer
A

Yeah. I think we've demonstrated. We've got to be over 1,000 new products now that we've launched since we opened up ICE Clear Europe back in 2008. And again, we're in constant dialogue with our customers about the next product they need to fill out their risk management portfolio.

Jeffrey C. Sprecher
Chairman & Chief Executive Officer
A

If you think about all these new products, they've largely been in our historical commodity business. But now with the acquisition of NYSE Euronext, we have moved into financial space through interest rates and through credit so that we started organically. So we've got a new pallet to paint on there with interesting new products. That's a lot of work going on internally here to come up with that roadmap.

Brian B. Bedell
Deutsche Bank Securities, Inc.
Q

Right, right. So your opportunity set is greatly expanded...

Jeffrey C. Sprecher
Chairman & Chief Executive Officer
A

Exactly.

Brian B. Bedell
Deutsche Bank Securities, Inc.
Q

...with different businesses. And then just a follow-up on the ICE Benchmark Administration. Jeff or Scott, how do you think about that longer term? I think Scott you said at a conference at one point you thought maybe potentially that could be a $100 million revenue business, like the CDS business at some point in the future. Maybe if you can give us a little sort of a roadmap over the next two, three, four years if you think that can actually happen and what were the drivers?

Scott A. Hill
Chief Financial Officer
A

Yeah. I don't recall saying it was going to be a $100 million business. I might have commented that it is a business that's similar to the CDS clearing business that we've created is really one that effectively didn't exist until we started it with LIBOR a year-and-a-change ago. I think the real value of that business, and you're already seeing it, is it started out as the LIBOR administrator. Around that, it's built a governance infrastructure, it's built a discipline around how those rates are determined, it's putting confidence around those rates. That model is replicable in multiple places. And the next step with ISDAFIX, and Jeff talked about that in his remarks, the more recent step was in gold. And so I think there are a couple of opportunities in that business. Number one, I think there's an opportunity to get the market confidence back in those benchmarks and to see growth around those benchmarks: LIBOR, ISDAFIX, and gold, but I think we can leverage the platform we've built, the governance structure we've built to deploy it across multiple asset classes. I don't know what the size of that is two years from now, five years from now, but it's bigger than it is today and I think it's going to be a meaningful contributor.

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Brian B. Bedell
Deutsche Bank Securities, Inc.

Q

Great. Thanks very much for the color.

Operator: Thank you. And the next question comes from Neil Stratton with Citi.

Neil M. Stratton
Citigroup Global Markets, Inc. (Broker)

Q

Hi. Good morning. Most of my questions have been asked and answered at this point, but wanted to ask about dark pools. There's been some – dark pools have been increasingly in the news lately and there's a buy -side consortium, which looks to be forming. Just wanted to get your thoughts on that dynamic. Thanks.

Jeffrey C. Sprecher
Chairman & Chief Executive Officer

A

Well, we've been working quietly, trying to work quietly, to build consensus on what a market structure change could look like for the U.S. equities business. And from time to time, there have been leaks as those efforts are going on. It's a dynamic conversation that's happening. We're talking to people all throughout the industry. We're making real progress I think in trying to forge consensus around what might be a better structure for everybody. And a part of that is the ability for large institutional investors to be able to match trades and not move the market through the leakage of information. And that's a very legitimate concern on their part. It exists in every market that we serve in some form or fashion. And oftentimes in these other markets that we serve, there are broker intermediaries or telephones involved. But given the liquid nature and high degree of standardization in equities, people want to try to do that electronically and hence you have the dark pool.

So I think it's good that the market is trying to solve for a highly meritorious dark pool solution that gets large size done without leakage of information and without negative consequences that some of the existing dark pools have on the investors and their confidence. And so in that sense, it'd be great if I could own the entire market. We can't. We won't. We never will. And what we do try to do is come up with solutions for our customers for the parts of the market where we do things well. And in the context of meritorious dark pool trading, we think that it's very important that that listed market have a good quote, because the dark pool depend on a good quote. And many of the people listening on this call get mark-to-market on these good quotes and investment decisions are made on good quotes and companies decide to go public and raise capital based on the confidence they have that their stock will be accurately dealt with and treated in the market. And so we're making I think real strides in shaping the conversation around how this market should evolve in the United States.

Neil M. Stratton
Citigroup Global Markets, Inc. (Broker)

Q

Thank you.

Operator: Thank you. And the next question comes from Rob Rutschow with CLSA.

Rob C. Rutschow
CLSA Americas LLC

Q

Hey. Good morning. Thanks for taking my question.

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Jeffrey C. Sprecher
Chairman & Chief Executive Officer

A

Good morning.

Rob C. Rutschow
CLSA Americas LLC

Q

Good morning. The first question is another one on oil. My understanding had been that the producers were a much bigger part of the market for oil than the consumers, maybe three or four times bigger. So, one, is that the case? And then based on your commentary, it sounded like the natural gas market is different where the consumers are maybe more of the market. So is that the case and do those percentages move around a lot over time?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer

A

Well, let me – I may have misspoken. In the natural gas market, the natural producer is a natural gas company. The natural consumer is a natural gas distribution company or regulated utility. So in a sense, there are very few actual consumers in the natural gas market. These are institutional players – commercial institutions that are hedging in either their exposure in the cost of producing wells or their exposure in delivering natural gas to customers, for which there are regulators that have a voice in. That's a very different market than almost every other market we serve where buyers and sellers are unregulated and are really hedging for totally commercial reasons, including the oil market.

Scott A. Hill
Chief Financial Officer

A

Yeah. I mean, you can think about, airlines are massive consumers of oil. And so in terms of production and consumption, I don't see anywhere near the imbalance you suggest to exist. In fact, many commercial organizations are consumers of oil and are hedgers in that space as well, so I don't see the balance that you suggested.

Rob C. Rutschow
CLSA Americas LLC

Q

Okay. Thanks. That's very helpful. A follow-up would be, it look like based on my math you got a pretty big pickup in your non-rate financial RPC this quarter. Just wondering if it's a mix shift or if there were some pricing changes in FX or equities?

Scott A. Hill
Chief Financial Officer

A

No, most of the rate changes that you're seeing right now are largely mix related.

Rob C. Rutschow
CLSA Americas LLC

Q

Okay. Thanks a lot.

Operator: Thank you. And the last question comes from Kenneth Hill with Barclays.

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Kenneth W. Hill
Barclays Capital, Inc.

Q

Hey. Good morning, everyone. Thanks for squeezing me in.

Jeffrey C. Sprecher
Chairman & Chief Executive Officer

A

Good morning.

Scott A. Hill
Chief Financial Officer

A

Sure.

Kenneth W. Hill
Barclays Capital, Inc.

Q

I wanted to come back to some of those changes you've quietly been suggesting for the cash equities market here. I'm wondering based on some of your discussions if you believe it's harder to get meaningful data from pilots or limited testing in your own markets. And, I guess, I ask because every time we suggest something it's thought as, okay, let's pilot this with a select group of stocks in a specific market. But it would seem like something like reducing caps on access fees or implementing a trade-at rule or doing a midday auction would require more complete system enhancement on the market participant side to get some good data out of it. So, I guess, from your seat, do you think that you can actually get really good data from some of these pilots? Or is it necessary to kind of go out and build a consensus around some of these changes in advance?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer

A

It's a very good question. First of all, I mean, interestingly, the current market structure that I've been advocating change to is technically a pilot. So that word is used pretty broadly in the regulated U. S. equities space. There's diverging views in the market about what would make it better. And there's new data coming in from Canada, Australia and soon Europe for changes that they've been making to market structure. So, as a result of that, I do think there's more of a consensus forming. But there are diverging views and it may be that what's good for a large cap stock – very liquid large cap stock may not be the same that's good for a small cap stock.

And so in that sense, there's conversation about whether or not one size should fit all and should you try some of these things to see whether maybe one size should fit all. And so pilots give you an opportunity to do that. But bear in mind that oftentimes in the equity world, pilot is not a little tiny thing that's done in a laboratory, it involves everybody in the industry and can actually be quite large as the current market structure is.

Kenneth W. Hill
Barclays Capital, Inc.

Q

Okay. Appreciate the comments there. The last one from me is on CDS. You had a great year in 2014. Obviously growing OTC clearing is pretty high on your list of opportunities for next year. I mean, as you look forward and think about the future growth, is it predicated on more launching new products and bringing in new clearing customers? Or is it through more holistic measures like the swap futures partnership you announced with Eris and leveraging some of the open interest you have? And something like the Eris, do you expect that to be more of a complementary product to your traditional CDS? Or is it more of a substitution thing? Just wondering how to think about that when that launches here soon.

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Jeffrey C. Sprecher
Chairman & Chief Executive Officer

A

Yeah, that's a really good question. I think the opportunity – there are a number of opportunities that will allow us to continue to grow our CDS business. Clearly, continuing to launch new products is a big part of it. A big part of the growth that we saw last year was us continuing to introduce sovereign CDS instruments as an example, and we're in constant dialogue with the industry regarding where their CDS risks are in products we don't clear. And that's a clear focus for us. I think continuing to expand the customer base that's clearing CDS is another growth driver.

We still don't have a mandate in Europe. But as I mentioned in my prepared remarks, we are seeing a lot of European clients doing clearing for CDS in our U.S. clearing house to get away from the uncertainty that exists in Europe, so I think that will continue to expand. Clearly, a mandate would accelerate that, but I think the market itself without a mandate has started to see the value and realize the value of clearing and the risk mitigation in the CDS space that it brings. And then clearly I think the Eris product and moving to an alternative product will be incremental. I do think there's likely to be some replacement aspect with regards to CDS index. But with regards to single names, with regards to sovereigns, with regards to a number of other products, I really think effectively it will be incremental.

Kenneth W. Hill
Barclays Capital, Inc.

Q

Okay. Thanks for taking my questions.

Operator: Thank you. And as we have no more questions, I would like to turn the call back over to management for any closing comments.

Jeffrey C. Sprecher
Chairman & Chief Executive Officer

Thank you, Keith. And thank you all for joining us today. We look forward to speaking with you throughout the quarter. I hope you have a good day.

Operator: Thank you. The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.

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