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Intercontinental Exchange, Inc. (ICE)

Q3 2017 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to the Intercontinental Exchange Third Quarter 2017 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 also note today's event is being recorded.

At this time, I'd like to turn the conference call over to Mr. Warren Gardiner, Vice President of Investor Relations. Sir, please go ahead.

Warren Gardiner

Vice President of Investor Relations, Intercontinental Exchange, Inc.

Good morning. ICE's third quarter 2017 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 these risks that could cause our results to differ materially from those described in forward-looking statements, please refer to our 2016 Form 10-K.

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

When used on this call, net revenue refers to revenue net of transaction-based expenses and adjusted earnings refers to adjusted diluted earnings per share. Also with us on the call are Jeff Sprecher; Chairman and CEO; Scott Hill, Chief Financial Officer; and Chuck Vice; President and COO.

I'll now turn the call over to Scott.

Scott Anthony Hill

Chief Financial Officer, Intercontinental Exchange, Inc.

Thanks, Warren. Good morning, everyone, and thank you for joining us today. I'll begin on slide 4 with some of the key highlights from our third quarter performance. ICE's third quarter revenues were up 6% versus the third quarter of 2016, driven by solid growth across both our trading and clearing segment and our data and listings segment. Data revenues increased 6% and trading and clearing revenues increased 8%, supported by a 15% increase in volumes.

Adjusted operating expenses were down 2% year-over-year to $476 million and benefited from a few million dollars related to reserve releases in SG&A. Adjusting for that benefit, we still would have been around only $480 million in expense and we expect to be around the same level in the fourth quarter.

More importantly, we now expect full year 2017 synergies of at least $70 million, up from our original guidance of $60 million. The solid top line performance and lower expenses combined to generate a 3 point expansion in adjusted operating margins, a 13% increase in adjusted operating income, and a 14% increase in adjusted earnings per share.

Finally, our profit growth has enabled us to generate strong cash flows during 2017. We've used that cash flow to achieve our leverage target and to return over $1 billion to investors via share repurchases and dividends through October. In addition, that financial flexibility put us in a position to announce a number of important strategic investments during October, which will cause minimal impact to our leverage and no change to our capital return plans.

Now let's move to slide 5, where I'll provide some additional color on our capital return priorities. We've generated over $1.4 billion of operating cash flows so far in 2017, and we remain on track to return over $1.4 billion to our shareholders this year, more than in any year in our history.

Also of note, as we highlighted in our press release this morning, our board recently authorized a new $1.2 billion share repurchase program that will start in 2018, an increase of 20% versus our previous authorization.

Please turn to slide 6, where I'll discuss our data and listings segment. These largely recurring revenues once again comprised over half of our consolidated revenues in the third quarter. Segment revenues grew 4% year-over-year on a constant currency basis. Data services revenues grew 6% on a constant currency basis, underpinned by organic growth of 5%. We expanded adjusted operating margins in the data and listings segment by 5 points year-over-year to 55%, driving a 14% increase in adjusted operating income.

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In light of the recent U.S. Treasury report, we thought it would be helpful to provide some additional context around our real-time proprietary cash equity revenue. You can see on the chart on the lower right hand side of the page that real-time cash equity data makes up only a small fraction of our data and listings segment revenue. The vast majority of our $2 billion data revenues are derived from a broad array of proprietary pricing data, reference data, analytics, indices, futures data, and desktops and connectivity solutions across multiple asset classes and consumed by customers around the world.

Of note, our data revenues will grow 6% in 2017 despite an overall decline in revenues associated with real-time cash equity data products. Perhaps more importantly, we remain confident that our business is well-positioned to continue to generate the mid to high single-digit growth profile that we laid out for you at our Investor Day in June.

The metrics that support our confidence are shown on slide 7. In particular, our annual subscription value, or ASV, was up 6% year-over-year on an organic basis entering the fourth quarter. In the Americas, revenues were up 3% year-over-year during the third quarter on an organic constant currency basis. Growth in new product sales and new customers driven by our fully integrated sales team more than offset the 6% decline in real-time proprietary cash equity revenue.

Signings in our Americas pricing and analytics business grew 4%. We provided signings as a new metric for only pricing and analytics because the metric is most indicative for that business. In EMEA, revenue grew 10% during the quarter and signings in our pricing and analytics business grew 8%. With the demands from MiFID II building, customers are turning to ICE for our best execution and liquidity indicator products as well as our expertise in navigating change.

Asia Pacific was our fastest growing region in the third quarter with revenues up 11% year-over-year and pricing and analytics signings up 13%. We continue to see opportunity to gain share in a growing market and we are investing in the region. In addition, we recently announced additional connectivity solutions through our venture with Go West, which we believe will ultimately prove to be an important step in bringing ICE's full suite of trading, clearing and data offerings to the region.

I'll review our trading and clearing segment on slide 8. Revenues were up 8% year-to-year and our operating margin expanded to 62%, driving an 11% year-over-year increase in adjusted operating income. You'll note that, as expected, our RPC rebounded versus the second quarter.

I'd also like to highlight the strong performance of our CDS clearing business through September. Through the first nine months of 2017, revenues have grown 9% versus the prior year and we expect to exceed $110 million in revenues for the full year.

The drivers of our third quarter trading and clearing growth are reflected on slide 9. Average daily volume, or ADV, grew 15% driven by a 35% increase in interest rate ADV, a 22% increase in oil ADV and a 16% ADV increase in our MSCI equity indices, which had a daily record of 1.3 million contracts during September.

Open interest increased 14% from the prior year, led by EU and UK interest rates, with open interest up 46% from the prior year and record Gasoil open interest, which surpassed 1 million contracts for the first time.

We expect to publish our October volumes tomorrow and are pleased that oil volumes remain strong, with average daily volumes up 12%. More importantly, total open interest across our futures and options platform is up 11% versus October of last year.

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Before turning the call over to Jeff, I'll note that we have included slide 16 in the appendix of our presentation to provide a summary of the trailing 12-month impact of our recent acquisitions. This is for illustrative purposes only as the timing of closing for BondPoint and NGX are as yet undetermined.

You will see, however, that the net impact from our divestiture of Trayport and the additions of the Bank of America Merrill Lynch Indices, NGX/Shorcan and BondPoint is a small increase to revenues, expenses and profit. We will provide further information regarding expected 2018 implications during our fourth quarter earnings call.

We also included some guidance updates in our press release this morning. And I'll be happy to take your questions during Q&A. But for now, I'll turn it over to Jeff.

Jeffrey Craig Sprecher

Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

Thank you, Scott, and good morning to everyone on the call. I'll begin on slide 10. We continue to position ICE to meet the evolving risk management needs of global markets, providing solutions to facilitate change and alleviating pressure points along the way has been a guiding principle throughout the life of our company.

We consistently and methodically broadened the scope of our business, adding unique content and expanding distribution. With each step forward, we've enhanced how we serve the workflows of our customers. And as global markets structures evolve, regulation changes and technology advances, the value we provide to our global multi-asset class risk management platform is rising. This philosophy underpins the strategic rationale behind our recent investments.

The addition of the Bank of America Merrill Lynch Indices broadens our content and scales our index business. BondPoint will enhance our footprint in the global bond markets. NGX will contribute new solutions to our leading global energy markets. And our stake in Euroclear offers us exposure to Europe's largest custodian at a time when collateral management is in focus.

Turning now to slide 11, I'll go into more detail on the strategic rationale and the opportunity that we see with the Bank of America Merrill Lynch Indices. With over 5,000 indices representing over $1 trillion in benchmark assets under management, ICE is now the second largest fixed income provider globally. But what really differentiates us and what we think will drive our growth in a rapidly expanding markets is our complete offering. Providing solutions that range from reference data, pricing data and index calculation services to a listing venue and the a trading venue, to a multi-asset class analytic platform, we have a full service offering serving both active and passive investment strategies.

As ETF sponsors search for flexible ways to lower costs and enhance quality, they're increasingly turning to self-index solutions such as those provided by ICE Data Services. In addition, the range of providers has historically been highly fragmented across services. Today, ICE is able to tailor holistic solutions for fixed income participants, a value proposition that has not historically been available in the market.

Continuing on this theme and turning to slide 12, I'd like to mention that last week we announced plans to acquire BondPoint, expanding our presence in the fixed income markets. BondPoint's all-to-all trading platform and leading position in the retail channel will provide us with the opportunity to engage new customers and expose them to our broad array of risk management tools and content.

Coupled with our existing dealer platform, it will enhance our solutions suite in a fixed income market that is rapidly automating and seeking efficiency that electronic solutions can bring. By leveraging ICE Data Services'

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continuous evaluated pricing and analytics suite as well as ICE's existing technology and distribution, BondPoint will be uniquely positioned to contribute to our track record of bringing transparency and innovation to global markets.

Moving now to slide 13, I'd like to highlight the positive trends in our trading and clearing business, in particular, our global energy complex. As a leading energy marketplace, we continue to address the increasing demand for comprehensive risk management solutions, not only in the crude oil markets but across refined oil products as well.

In our flagship Brent complex, average daily volume rose 20% year-over-year in the third quarter, was up 19% year-over-year in October and is on pace for its 21st consecutive record year. Within the oil industry, Brent is widely acknowledged as the global pricing benchmark due to its role as a reference price and its impact on pricing products in all stages of production.

And Brent Crude's origin as a seaborne benchmark has ingrained the Brent Index in the global contracts, pricing over 2/3 of the world's crude oil. It's one of the reasons why ICE's energy RPC has been resilient compared to competitors.

WTI Crude has been in contango due to the current high storage levels of oil at Cushing, Oklahoma, and the constraints that surround it. While the forward curve for Brent has been in full backwardation, this signals a tightening physical market for Brent, as demand improve, as the commercial destocking progress and as OPEC adhere to supply cuts.

The dialogue that we hear around the global relevance of WTI versus Brent is quite frankly a red herring. Crude oil is not a homogenous commodity. And while WTI has current trading support from local cyclical storage problems, it is in contango. And the current data shows that when U.S. crude is transported to the Gulf for export, its forward prices are backwardated, not in contango.

There's a $4 price difference from WTI and the pricing ARB is established against the similarly backwardated Brent complex. It is the Brent Index that U.S. producers seek for forward price protection, as exported WTI joins the millions and millions of barrels that are already in seaborne motion. So we continue to invest in Brent's future as it remains the cornerstone of an energy supply ecosystem that spans across an array of products, risk management tools and clearing services.

I also want to highlight the addition of NGX and Shorcan, which we believe will only enhance our solution serving the North American oil, natural gas and power markets. We've been working with NGX for over a decade, and upon closing, it will bring us additional physical clearing solutions, enabling us to more effectively serve our commercial client base.

Similar to other investments I've spoken about today, this transaction checks the key strategic boxes. It enhances our content, it broadens our risk management services and it expands our distribution.

I'll conclude my remarks now on slide 14 by taking a moment to comment on the white paper released by the U.S. Treasury Department last month.

Since we became the owners of the New York Stock Exchange in 2013, NYSE President, Tom Farley, and I have been discussing a proposal with market stakeholders, which we developed to improve the structure of the U.S. equity market. We do this in an effort to improve market structure for investors and the capital raising activities of

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our listed companies. Our proposal attempts to find ways to reduce market fragmentation and produce the most efficient match for buyers and sellers with low friction costs.

We're encouraged that the Treasury report picks up on many of these concepts that we've been promoting and we appreciate the time that Treasury officials spent seeking our input. For the market to be improved for end users, a group of these ideas would need to be implemented as a package in order to get at the root causes of fragmentation and not just treat its symptoms with one-off remedies.

Since the Treasury report was published, we've received a number of questions from investors regarding NYSE's data sales. As Scott mentioned, the sales of NYSE real-time equity data products are expected to be less than $90 million in annual revenue to us and their growth has been relatively stagnant. These products account for approximately 2% of ICE's annual revenue. And whether their growth continues to slow, stabilize or improve, over time, it will not be particularly meaningful to the growth plan that ICE is pursuing.

One should also note that in the context of approximately $8.5 billion in annual commissions that are charged to the U.S. equity market participants, any reduction in growth of our real-time market data fees is unlikely to enhance market quality for investors or encourage companies to go public. In fact, given their low relative cost within the industry, these real-time products seemingly receive much more publicity and attention than they deserve.

The more than decade long litigation over real-time fees, which has been the source of much politicizing, seems to be rooted in the earlier analog to digital conversion that surrounds the adoption of Regulation NMS in 2005, a transition environment that was much less relevant than today. It is, however, our hope that NYSE's industry comprehensive restructuring proposals will gather momentum in light of the Treasury's report. And we've been pleased that a large number of buy-side firms have already reached out to us to talk about its efficacy.

So we're open to seeing further shifts of revenue away from our real-time products to our SIP revenue streams if our package proposal can be advanced to improve the overall market structure for end-users. And we don't believe our shareholders should be concerned about this idea, as our overall data business remains on track to post the robust 6% growth that we've anticipated, despite any headlines surrounding less meaningful real-time U.S. equity data.

So, whether in the U.S. with efforts to rationalize regulation or in Europe with the upcoming implementation of MiFID II, we continue to find opportunity within regulatory change. This is why we have six clearing houses across the globe on common technologies. This is why we have 12 trading venues. It's why we have a data and analytics business serving the major asset classes. And it's why we have multiple solutions to deliver and distribute these capabilities to our customers around the world.

So, as you can see on this slide 14, we've uniquely grown earnings over the past 11 years and in each of the past 11 years through both economic cycles and regulatory changes. And we're confident that we'll continue to build on this track record that you see here as we begin to look to 2018 and beyond.

So, I'd like to thank our customers for their business in the quarter and recognize my colleagues for their efforts producing another strong quarter of growth. I would also like to welcome the Bank of America Merrill Lynch Index team to ICE and I look forward to soon welcoming the teams from BondPoint and NGX/Shorcan.

I'll now turn the call back to our moderator, Jamie, to conduct the question-and-answer session, which will run until the bell rings at 9:30 Eastern Time.

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QUESTION AND ANSWER SECTION

Operator: With that, ladies and gentlemen, we'll begin the question-and-answer session. [Operator Instructions] And our first question today comes from Rich Repetto from Sandler O'Neill. Sir, please go ahead with your question.

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Yeah. Good morning, Jeff. Good morning, Scott.

Jeffrey Craig Sprecher
Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

A

Good morning, Rich.

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Q

I guess a follow-up on the market data – excuse me, discussion. First, a more detailed question, why – and I think you alluded to this, Scott, but why did the exchange data drop quarter-to-quarter? You said something about the demand for real-time data. And then more broadly, Jeff, I guess, if real-time proprietary feeds are only 4%, I guess, I'm trying to distinguish, so you got probably $75 million to $100 million of Tape revenue, and then this 4% from proprietary, is that the entire real-time data exposure you have to equities.

Jeffrey Craig Sprecher
Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

A

Yeah. Let me answer that second part first. So, we and all exchanges and all price discovery venues and dark pools contribute data to the SIP. And there is a highly regulated venue that has its own sales force and its own operations and we participate in a pro rata piece of that along with the rest of the industry. And that is – Scott, help me here, maybe $120 million or something in revenue for us, plus or minus. And then, there is this separate bucket that seems to be the one that gets a lot of attention, which is basically proprietary feeds and real-time information that we sell outside of the SIP, which is probably less than $90 million this year.

We've got a proposal out there that we think there should be a single point of truth for what is the value of a stock in the marketplace. And if that single point of truth would enure to the SIP, that would be fine with us as part of a package of reforms that would go along to bolster confidence in the market and protect the process of price discovery for end users.

Scott Anthony Hill
Chief Financial Officer, Intercontinental Exchange, Inc.

A

And then, Rich, to your specific question, you may recall, in the last earnings call, I mentioned that we had an audit that resulted in some revenues in the second quarter, that I had originally expected in the third quarter. I noted that second quarter was therefore a bit elevated. So that's what the dip is quarter-to-quarter.

Jeffrey Craig Sprecher
Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

A

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And, Rich, you asked what is going on that's causing this. I mentioned in my prepared comments that there was a lot of angst as the industry was moving to Regulation NMS. And basically, with the forced fragmentation of the market by reducing the barriers to entry, there were a lot of parts in motion and there were people, there were haves and have-nots in that environment, and there were arbitrage opportunities that high-speed traders were able to exploit.

Over time, what's happened is that the exchanges like NYSE have gotten more sophisticated in the way we run our platforms to take out arbitrage. We've been able to time markets. We measure cables, work with networks and so on and so forth that has essentially taken the flash boys type of behavior out of the markets in my opinion. And as a result, people that want real-time data directly from the exchange or simply looking for a breadth of products that we offer that are not available on the SIP in addition to what you can get from the SIP, and the demand for that is stagnant and has been relatively stagnant for quite some time.

So I feel like the controversy around this is a legacy issue that's been going on for a long time and we're still debating the flash boys mentality in a world where I don't believe that the same dynamics exist today.

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Thank you, Jeff. Just to move on from the market data, just one follow up. Literally, I think within the last hour, the Bank of England raised the rates – their interest rates for the first time, and I think since the financial crisis. And I'm just trying to get your – your interest rate volumes spiked in September, but they came off in October. I guess getting your broad outlook on the interest rate complex going forward.

Scott Anthony Hill
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Yeah. So, Rich, I'll take this, and if Jeff wants to supplement, he certainly can. But this is the reason why I highlighted in my remarks that open interest across all our products is up 11% year-over-year at the end of October. Interest rates, in particular, the open interest levels are high. And what we've contended consistently over time is that that's what you need to pay attention to because if open interest is up, that means the market's paying attention, and when you get volatility, it drives volumes.

And so if you think about what the central banks are doing now, you've got European Central Bank that says it's going to slow buying, you've got the U.S. Federal Reserve that's come out and said, they're going to move in December. And now, you've got the Bank of England, who voted 7-to-2 to raise their interest rates, I think, somewhere between 25 basis points and 50 basis points.

I'm not predicting that all happens in November, but it certainly says that elevated open interest levels, interest rate volumes should respond. And I think, importantly, I would note that our rates consistently respond to all three of those dynamics. So it's not uniquely a U.S. movement, it's not uniquely a UK movement. Our European and UK rates move relative to all that central bank activity

And so, again, not predicting a particular month, but as I look forward with the central bank starting to move, I like the prospects of our interest rate business with open interest where it is.

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Great. Thank you very much.

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Operator: Our next question comes from Alex Kramm from UBS. Please go ahead with your question.

Alex Kramm
Analyst, UBS Securities LLC

Q

Yeah. Hey, good morning. And just maybe I think the one thing that you didn't really highlight a lot about was the Euroclear stake purchase here, Jeff. Maybe you can talk a little bit more about this. I think, historically, you've shied away maybe other than Cetip from like buying some minority investments. So how do you think about that investment going forward? Could we upsize that? And then, even if you don't upsize it, like what does it get you, what does the seat at the table get you for your overall business over the next [ph] few (28:00) years?

Jeffrey Craig Sprecher
Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

A

Well, thanks for the question and thanks for acknowledging that. We typically don't buy minority stakes. We don't really view that our role as managing shareholders capital is to act as a venture capital firm. We believe people can do that better than we can. But where we have bought minority stakes, and we've done a number of them, we bought a minority stake in the Climate Exchange in the early days of the movement of Climate, we bought a minority stake, as you mentioned, in Cetip, and a lot of changes going on in Brazil and now we're buying a minority stake in Euroclear.

At a moment in time, when we think there is a lot of change going on in both in Europe and with respect to custody in terms of bank capital requirements and other pressures that are being put on the industry for costs. So this stake allows us to have a closer relationship with the board and management of the company and we believe that there will be a number of initiatives that we could work on jointly together in that context. That type of investment worked very well for us in Brazil, where we jointly launched the bond platform with Cetip, which we still are a stakeholder in and which is doing very, very well.

And so we've already begun engaging conversation with Euroclear management to try to set the table for us and things that we could do together that would be jointly beneficial.

Alex Kramm
Analyst, UBS Securities LLC

Q

Great. Thank you. And then just secondly, maybe a little bigger picture, Jeff. I think you ended your prepared remarks today on the slide with the consistent growth over time, which has obviously been impressive. And I think over the years, you've laid out that algorithm that gets you to double-digit earnings growth most recently you [ph] did at the (29:55) Investor Day. If I look at this year, unfortunately, given where consensus is and how the quarter's shaping up so far 4Q in terms of volumes, it looks like you're maybe be falling short a little bit, maybe like mid single-digits or so.

So I guess the question is, first of all, can you identify like what the biggest areas were that didn't work this year even though you took out synergies, et cetera? And then, going forward, like why should we have more confidence next year? And does this highlight also that we may have to do some larger scale M&A again to juice the growth rates a little bit to get to that acceptable rates for you? Thanks.

Jeffrey Craig Sprecher
Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

A

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Sure. Look, I think, as management here, we believe that it's our job to deliver value for our shareholders and that our job is to deliver earnings growth, and earnings per share growth specifically. So we take that seriously. It's how we're compensated. It's how the culture of the company is developed. And I'm pretty confident that over the long-term, we can continue to do that.

We don't run the business quarter-to-quarter. But more I think than most companies in our space, we will buy businesses and we will sell businesses and we will curate what we do and we'll continue to evolve the company to move into areas of growth. And I think the recent acquisitions that we've done, particularly buying IDC and the index business from – fixed income from S&P and the index business from Bank of America Merrill lynch, these are all assets that we're putting together in this new data space, which we believe really will be a growth driver for the next few years. It's early days for us in this area, as you know, but we've been amazingly positively surprised by the reception that we're getting. And we do think that it will be a long-term driver of growth for us.

Alex Kramm
Analyst, UBS Securities LLC

Q

All right. Very good. Thank you.

Operator: Our next question comes from Alex Blostein from Goldman Sachs. Please go ahead with your question.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Hey, good morning, guys.

Jeffrey Craig Sprecher
Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

A

Good morning.

Scott Anthony Hill
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Good morning.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Question with respect to a couple of recent deals you guys have done. One more clarification question, but I guess, Scott, with respect to BAML, I just want to make sure I got this, so $480 million or so in expenses in Q4. I'm assuming that includes the expenses associated with the BAML Index business. Can you give us the revenue contribution there as well? And I guess, bigger picture, maybe just a couple of comments on how that business has grown recently and how does the ownership of BAML Index business by ICE could overall kind of enhance the offering there?

Scott Anthony Hill
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Yeah. So, I'll let Jeff answer the second half of the question, but I'll just start with giving when BAML closed, the $480 million of expense does include it. It's a very small number and it's a very small impact to revenue for the quarter. And so, I would call it immaterial to the quarter. And then as we move into 2018, as I noted on our fourth

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quarter earnings call, I'll give you guys an update on that deal plus the other two assuming they close in time to let you know what 2018 is. But for the quarter, yes, it's in the expense, but it doesn't move the needle and revenue is also very small.

Jeffrey Craig Sprecher
Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.
A

And, Alex, just some commentary. Historically, index businesses that existed inside banks and trading firms were there to help facilitate trading, not to necessarily independently grow the index business. And by extracting that business now, it gives us an opportunity to actually put time and resources behind it and actually grow it as a business for both revenue and earnings. And it is an amazing complex, in that when you combine it with everything else, we're now the second largest fixed income complex.

And more importantly for us, we have a lot of underlying data, reference data, pricing data, other proprietary tools that we have that just are additive when you can walk into a customer that is using those indices. So whether we ultimately monetize the Bank of America Merrill Lynch Indices directly or whether we monetized it by providing underlying tools such as data, reference data and analytics is part of the package that I mentioned of solutions that we can bring to the market that give us a lot of flexibility to end users.

At a moment in time, when there is a lot of self-indexing going on and pressure on index costs and so on and so forth, we think we can grow our franchise really well in that environment.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC
Q

Got it. Thanks. And then second question just again also more strategic. So thinking through the credit trading dynamic, you guys earlier – this year announced you'll try to get bigger in the dealer-to-dealer space in terms of bond trading. You obviously still have the CDS business. You bought BondPoint, given your access to retail. Can you tie these pieces together for us, I guess, just thinking through your bigger picture aspirations in credit trading?

Jeffrey Craig Sprecher
Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.
A

Sure. I mean, really, what BondPoint brings to our current infrastructure is a different client base. BondPoint is a dealer to end user wealth manager platform and those people are not historically in the ICE ecosystem. So it allows us to bring that client base into not only the BondPoint trading but to our analytics, data sales, network connectivity services, desktop, so on and so forth that we are assembling around the fixed income space.

I think it will be very additive. I think this – if you see BondPoint from the data we put in the deck, the size of trades on BondPoint are growing, the viewership of BondPoint is growing and having a inter-dealer platform right now, i.e. the wholesale market. This gives us essentially a dealer-to-client footprint, which is the retail market. And we think those two will work well together, particularly given the direction that regulation is going in the bond space, which is pushing things towards more transparency, but also protecting the inventory capabilities seemingly of the dealers in terms of liquidity that they will be able to provide long-term to the market.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC
Q

Great. Thanks very much.

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Jeffrey Craig Sprecher
Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

A

Thank you.

Operator: Our next question comes from Ken Worthington from JPMorgan. Please go ahead with your question.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Hi. Thank you. In terms of data, the U.S. business is big and growing a bit more slowly and Asia is small and growing really fast, but it seems like Europe is big and growing fast and that maybe the most interesting. So can you flush out further, which buckets you see as the big drivers of growth in Europe, maybe just compared to the U.S.? In your release, you used exchange data versus analytics and versus connectivity. And then, maybe discuss the broader themes and drivers of growth in Europe. So, obviously, MiFID seems to be playing out here. But maybe talk about MiFID, and more specifically, how that drives data usage and growth for you versus other trends across the [ph] bond (37:24)? Thanks.

Jeffrey Craig Sprecher
Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

A

Sure. Well, you've read our data correctly and that the U.S. is a big market, it's an important marketplace, but it's more advanced in terms right now of how it's consuming data and the real growth opportunities that we're seeing lie outside of the United States. And MiFID is a big driver of Europe.

And while people are looking for compliance tools specifically to meet the regulatory text of MiFID, MiFID, and in combination with Brexit, is also providing a nucleus for a longer term change that's going on in the way asset managers do business, in the way that money is managed and the locations on where that's being done.

And so, we think there is going to be a multi-year trend going on through Europe of change of where workflow is going to be modified, transparency is going to come in, accountability in terms of end user documentation and discovery is going to be increased, and to a certain degree, our large global clients are telling us that they may export some of those techniques both to the U.S. and to Asia. And so, we think there will be some spillover benefits that come out of that for the data sales, if you will.

Asia is just – is really growing off a very small base, but it is the trend that we all see for Asia, more sophistication in money management, more ability to access global markets, more ability to manage wealth and risk within the region. And so, we've been investing a lot in the way we organize in Asia, the way we've got connectivity to Asia and so on and so forth.

The U.S. is a bit of a transition period. The U.S. is going through a pendulum change under the current administration on how regulation is going to be interpreted. There's a lot of unknowns, if you will. There's obviously a lack of volatility, particularly in U.S. equities, that maybe a drag on those markets. But I think again, those are short-term cyclical issues.

Scott Anthony Hill
Chief Financial Officer, Intercontinental Exchange, Inc.

A

The other thing to keep in mind, Ken, is Jeff talked about the real-time cash equity's data and I mentioned it was down 6%, Tape revenue down a similar amount, 5% to 6%, almost 90%, if not a little more than that, hits the

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Americas and not the other two regions. And so that impacts a little bit more poignant in the Americas than it is anywhere else.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Fair enough. And then just separately, Scott, how are you thinking about CapEx in capitalized software spending next year? Any big changes up or down versus what we are experiencing this year. Thanks.

Scott Anthony Hill
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Yeah. So, we've given you that CapEx, Ken, in a couple of buckets and I'm saying this in advance of our budget with our board, which we'll do later this year, but my early indications are the real estate CapEx, which I think we noted, would be $50 million this year. That will definitely be coming down as we move into 2018. And I expect our operating CapEx will be somewhere between flat to down a little bit.

So, we clearly have been making investments at 11 Wall for our listed companies and building now IDC in the Pillar rollout this year. Some of that, particularly in IDC, that build out will continue as we move through next year, but I think the general trend is down from an 2018 versus 2017 standpoint.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Awesome. Thank you.

Operator: Our next question comes from Jeremy Campbell from Barclays. Please go ahead with your question.

Jeremy Campbell
Analyst, Barclays Capital, Inc.

Q

Hey, thanks. On the self-indexing side, ICE had a small win, as several State Street SPDR ETFs cut fees because they dropped Russell and moved to a proprietary index with ICE's support. But I guess big picture, do you think that index branding is a bit more important on the equity ETF side with like Russell, SB, MSCI than it might be for fixed income? And kind of given your holistic fixed income offering that you discussed in your prepared remarks, how do you think about the addressable market, maybe some of the timing for getting further traction in that index solution type business?

Jeffrey Craig Sprecher
Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

A

It's a good question. I mean when you think about the conversations we're having about the demand for U.S. real-time equity data, you see it's being diminished and most indices that we think about are equity indices. It's simply taking a basket of stocks and just grabbing those prices and in real-time calculating. So it's a math project. There's very little – that equity data is somewhat ubiquitous, available a lot of places. Those indices in equities have very little intellectual property around them, except for a few milestone indexes that the global industry uses the benchmark whatever else they do on a self-index basis.

Fixed income is very different. When you think about any kind of an index, the life of a fixed income instrument is short, people do five-year loans and retire them, people refinance loans and bonds. So that index needs sort of constant care and feeding for replacements and rebalancing. The underlying data is hard to get, both the

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reference data, in other words, what is the legal name of the entity, when is the bond going to be redeemed, what opportunities are there for early redemption, penalty so on and so forth. That reference data has to be underpinned up as a foundation to any index as does the pricing, which most fixed income instruments don't trade. So, pricing has to be discovered through related instruments, algorithms, other derivatives that you can back into rational pricing.

So, there's much more intellectual property that goes into the construction of a fixed income index and that's where we have been focusing. If you look at the acquisitions we've made with S&P, with Bank of America Merrill Lynch, with IDC, all of it is targeted towards having a holistic platform that really works in that fixed income space. Anyone that owns one of the major global equity indices, congratulations to them, but whether or not the rest of the family of indices that they have, have much brand equity, it becomes much less obvious that you can continue to charge in AUM base fee for those.

Jeremy Campbell
Analyst, Barclays Capital, Inc.

Q

Got it. And then, maybe, Scott, regarding the Trayport sale, how much of the proceeds were kind of already allocated to the recent investments and acquisitions you made and may be the upsized buyback versus what's may be kind of freed up for future M&A or capital returns?

Scott Anthony Hill
Chief Financial Officer, Intercontinental Exchange, Inc.

A

So, the way I would think about it is the Trayport proceeds and the proceeds paid for the other acquisitions are all kind of in one bucket. Any incremental amount above the Trayport proceed, we finance through debt, which had a very small, as I indicated, impact on leverage. And our objective, as we move into 2018, remains that we return 100% of the capital we don't need for forward-looking deals. And that's why you saw us bump our share repurchase authorization – our board bump our share repurchase authorization by 20%.

So, I would think of the deals as a collective that we did in October with any incremental on leverage and our share return – or our capital return policies as we move forward is to continue to grow it as we grow. And I think you saw on the share repurchase authorization, we're well-positioned to do that.

Jeremy Campbell
Analyst, Barclays Capital, Inc.

Q

Great. Thanks a lot, guys.

Jeffrey Craig Sprecher
Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

A

Thank you.

Operator: Our next question comes from Brian Bedell from Deutsche Bank. Please go ahead with your question.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks very much. Just some clarifications, sorry, if I missed this, but the – of the pro forma revenue from the new acquisitions of the $93 million, how much of that was from BondPoint? I know you gave a good breakout on slide 12 of the composition. I'm just trying to sort of gauge the size of it. And it looks like the volume is almost

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triple what you have currently in ICE Credit Trade. So I just wanted to confirm that, and if you think that 40% CAGR over the last two years, or 2016 to 2017, is sustainable near-term.

Scott Anthony Hill
Chief Financial Officer, Intercontinental Exchange, Inc.
A

Yeah. So, we haven't provided – we gave you an aggregate of what the deals look like on a trailing 12-month basis, as I suspect you would expect a big portion of those revenues are related to BondPoint. I'll give you more specifics with regards to 2018 guidance once we have it. Again, the chart on 2016 was just for indicative purposes to make frankly the point that all the deals net out to not a really material impact on our business. But again, more specifics to come when we have our fourth quarter earnings call.

I think with regard to whether or not we think we can continue to grow the BondPoint business, I don't think there's any doubt. Number one, I think the business itself was well-positioned, particularly in the corporate and the muni space, as you saw on chart 12 that Jeff walked through. It's been strong growth. I think on a standalone basis, it could continue to grow. But more importantly, we have the opportunity for our dealer-to-dealer platform and the customers on that, and the retail brokers, the wealth managers, et cetera, on BondPoint to cross-pollinate the different platforms.

And so it's a situation where we bought a business we think can continue to grow well by itself, but that we think we can grow faster once we put all our assets together.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.
Q

And am I correct on that, it's at about 3 times the size of the current ICE Credit Trade?

Scott Anthony Hill
Chief Financial Officer, Intercontinental Exchange, Inc.
A

I haven't looked at it in that way, but it wouldn't surprise me if it's something of that magnitude.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.
Q

And then just back on data. I think at Investor Day, you were talking about – and I know this is very hypothetical and long-term, but pricing is about 30% of the driver for the increase in long-term data revenues. Are you still sticking by that with some of the potential pressure on U.S. cash equities data? And how would I guess you make up for that, if that's a lower number?

Scott Anthony Hill
Chief Financial Officer, Intercontinental Exchange, Inc.
A

That's a really good question and I appreciate you asking it. Look, I think the point that Jeff made and I'll reiterate it is that real-time cash equities data, even in our data business, is less than 4%. And so, the model we've showed you in June is the model we believe we can execute. I look at last year, mid to high single digits, last year, we grew 7%. This year, we're going to grow 6%. ASV, kind of our forward-looking metric, organically is at 6%.

So, yeah, we feel very confident about the model. I think the elements are all directionally correct. As I said at Investor Day, in any given year, one maybe a little bit more, a little bit less. For example, as we sit here today, our number next year is not going to benefit from acquisitions, but, again, we're confident of where it will be organically.

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So, yeah, look, I think the pricing element is right in the medium and longer term. In any given year, I think it can vary. But I absolutely don't think the impacts of the real-time cash equities business are going to be a big differentiator inside the model or inside our growth.

Jeffrey Craig Sprecher
Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.
A

And let me just – we're providing more transparency in this call because we've been getting a lot of questions about real-time NYSE data, but we've owned the NYSE since 2013. So, this is not – the dynamics around real-time NYSE data are not new to us. And so, this has all been baked into the guidance that we've been giving you, the way we've been operating the business and so on and so forth. It is a high profile topic. It is a low profile issue within the management of this company because we are a company that is looking for a change that is driving growth and it is not in that space.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.
Q

Great, great. Thanks very much for the color.

Operator: Our next question comes from Michael Carrier from Bank of America Merrill Lynch. Please go ahead with your question.

Michael Carrier
Analyst, Bank of America Merrill Lynch
Q

Hi, thanks. Good morning. Jeff, maybe just on the fixed income or the credit part of the business, so when I look at ICE, you guys have CDS, now you've got BondPoint, you've got the data part with IDC. So, just trying to understand when you look at that opportunity, like what other maybe like pieces are you missing to kind of build that out, whether it's from a client standpoint or a clients-end standpoint to really maybe be able to attract that opportunity?

Jeffrey Craig Sprecher
Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.
A

It's a good question. I think the footprint that we have gives us everything we need. That doesn't mean that we won't be opportunistic if things came along. I said on this call about a year ago that I thought that the future was going to be a lot more bolt-on acquisitions for our company, just given the global trends that are going on in the market and I still stand by that today. There may be interesting things and we're in a great position from the way Scott's been managing cash to be able to execute quickly on M&A opportunities as they come up.

But we have a really strong team, Lynn Martin in data and Chris Edmonds who oversees financial products and Stan Ivanov who oversees our credit CDS business, have all been working together with Scott and Chuck and I on how we can bring all of this together and really make an interesting offering. And I've said a number of times on this call that I've been surprised how quickly the market has responded to some of the things we've brought out, the positive feedback we've been getting.

I have a meeting in the next couple of days with the most senior management of one of the buy-side firms that is talking to us about how can we do more together. And so, I'd never had that kind of conversation with these people in the history of the company. And so, I really do feel like we've had – have a really good platform to bring together, but that doesn't mean we won't find things along the way that can really supercharge and enhance it.

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Operator: Our next question comes from Chris Harris from Wells Fargo. Please go ahead with your question.

Chris M. Harris
Analyst, Wells Fargo Securities LLC

Q

Thanks, guys. Another one on data. Thanks for the incremental disclosure. I guess, we're saying that U.S. equity prop is $25 million of revenue for you. NASDAQ disclosed that they have $100 billion of U.S. equity prop data rev. So curious as to why NASDAQ might have so much more than NYSE in that area. And then a related question to that would be, if nothing happens on the regulatory side of things as it relates to data, might it actually be an opportunity for you to narrow the gap between you and NASDAQ in this area.

Scott Anthony Hill
Chief Financial Officer, Intercontinental Exchange, Inc.

A

So let me just start on a quick key check. So from a numbers standpoint, what Jeff alluded to in his script was for a full year, the real-time cash equity is less than $90 million. So I'm not sure what the $25 million number is. And then, he went on to say later that our Tape data was around $120 million in total. And so I don't think if you go back and check those against what was disclosed, you're going to find them to be that different.

Jeffrey Craig Sprecher
Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

A

Yeah. And with respect to the market dynamics, there are a lot of competitors in the space that take real-time feeds from exchanges and what have you, basically create a private label version of the SIP. And that was interesting in a market dynamic where people were worried about the time that it took to see information.

And as I mentioned, over-time, exchanges – we've changed our systems to try to take any latency and arbitrage capability out of individual servers, individual NIC cards, individual cables, software upgrades, I mean you name it. There have been years now of markets making sure that from a pure technology standpoint the playing field is level.

So, having the opportunity for a private label SIP, when you've got to SIP that has price regulation and a lot of investment to improve it, is probably not a huge opportunity. NYSE never did a particularly potent job of moving into that space. It's probably in retrospect not a bad thing because I'm not sure it's a growth area for this management team to pursue.

I do think that if you run a grocery store, you got to have milk, butter and eggs, if you're going to sell the high-priced Rotisserie chicken. And so, NYSE data is milk, butter, and eggs. And what are Scott and I and Chuck doing, we're making Rotisserie chickens. So I don't want to necessarily say that you don't want to have it, but I'm not sure that that's where you want to invest.

Operator: Our next question comes from Chris Allen from Rosenblatt. Please go ahead with your question.

Christopher Allen
Analyst, Rosenblatt Securities

Q

Good morning, guys. Just wanted to touch on credit again. Greenwich Associates recently published a paper talking about the evolution of corporate bond trading. And the conclusion was they expected to see bond trading venues more [ph] different to data and analytics (56:35) providers moving forward with their liquidity pools as the

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foundation of the business. I don't know you guys have a little bit of a different [ph] tack (56:43) just with IDC capabilities. And now, it looks like [ph] you've build (56:47) liquidity pool. So any color in terms of how you think the bond markets evolve? Only 20% of this trade electronically right now. Where do you think that can get to? And how do you think you can marry your data capabilities? A little bit more depth or color there with the trading venues.

Jeffrey Craig Sprecher
Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

A

Yeah. Well, bear in mind, at least in the U.S. and now coming into Europe, you have this notion of a publicly disseminated tape, the trace tape in the U.S. And so, there is bond transparency that all data providers can work off of. And then, ICE can supplement that with real-time pricing that we're getting from other relationships that we have, with real-time pricing we're getting from – in other words, from buy-side customers, real-time pricing we get from our own platforms, real-time pricing that we get through our CDS and credit vehicles.

So we have a lot of data that floats around here that we think will actually help facilitate trading. And in the holistic circle that we always like to talk about, if we can have better transparency, we think it'll facilitate more trading and ultimately more clearing and more dissemination and then more network capabilities and analytics and so on and so forth.

So I don't think it's any one part of that drives the other. I think it's a transitional change that the market's going through. And whether we like it or not, fixed income are relatively illiquid instruments. And so they, at the margin, are going to need a lot of help to be electronified. And I think we're well-positioned because we have tools that can provide a lot of help. And that's why we're investing in the space.

Operator: And our next question comes from Kyle Voigt from KBW. Please go ahead with your question.

Kyle Voigt
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Hi. Okay, maybe just one follow-up on MiFID II. Just wondering if we could get some updated thoughts here on the derivatives side. Just wondering if you're planning to take advantage of that 30-month delay for open access that's available for exchange traded derivatives venues. And maybe some just updated thoughts on how you see open access playing out over the coming years in terms of the potential for fragmentation. Thanks.

Jeffrey Craig Sprecher
Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

A

Sure. Well, there's an interesting conversation going on in Europe right now between most of the major exchanges and most of the major regulators over whether or not MiFID II works in an environment where you have a Brexit. If we think of MiFID II as being essentially forced fragmentation of markets in order to stimulate competition, you've got this overlay now of a population that voted for fragmentation. And is there still a role right now for government to implement forced fragmentation when the market itself is fragmenting the market in ways that none of us sitting here today can fully comprehend. And so there is an active dialogue going on amongst regulators and market participants about that 30-month delay and how that could be implemented potentially across the Brexit negotiation. We'll just have to wait and see where that comes out and what the outcome of that is. But you do see for the first time certain people in Europe suggesting that maybe that provision of MiFID is potentially ill-conceived in the current environment. And not knowing where financial services companies and customers are going to land post-Brexit further complicates regulatory and political oversight.

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Operator: And ladies and gentlemen, at that time, we have reached the end of today's question-and-answer session. I'd like to turn the conference call back over to management for any closing remarks.

Jeffrey Craig Sprecher

Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

Thank you, Jamie. And thank all of you for joining us today and we look forward to continuing to update you as we close out the year and as we continue to build on the track record of growth within the company. Have a good day.

Operator: Ladies and gentlemen, that does conclude today's conference call. Thank you for attending. You may now disconnect your lines.

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