05-Dec-2017

Intercontinental Exchange, Inc. (ICE)

Goldman Sachs US Financial Services Conference

Copyright © 2001-2017 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

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

MANAGEMENT DISCUSSION SECTION

Unverified Participant

Okay, great. So we're going to get going with our next session. Next up, it's my pleasure to introduce Jeff Sprecher, Founder, Chairman and CEO of ICE. Over the years, ICE has evolved into a diversified network of global exchanges and clearing houses, which has further been transformed by obviously ICE's data business and all the initiatives they are doing on that front. Importantly, ICE remains committed to a double-digit EPS growth, which has always been a cornerstone principle of the company, which I'm sure we'll get to talk to Jeff more about today, so thank you for being with us.

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

Thank you.

QUESTION AND ANSWER SECTION

Q

So, last time, we were here a year ago. IDC was still sort of fresh for a lot of folks. You guys had a longer period of time to digest it. So, when I want to take a step back for a second and think about, we have come to know ICE really as an exchange and a clearing house. It seems like a lot of folks still think about the data business and exchange business kind of separately.

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

A

Right.

Q

So, to start off, I was hoping you could spend a minute on the kind of the network benefits that you see from having the exchange business, the clearing end business and the data business really combined and what that could mean for the growth of the business?

Copyright © 2001-2017 FactSet CallStreet, LLC

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

A

Yeah. Well, first of all, it's nice to be here everybody. You did a nice job of introducing that question because you put the word network in there and what exchanges are, are networks. So they're not really different than Facebook. In other words, the next incremental user that comes onto an exchange, makes the whole thing more valuable to everybody else, which is another way of saying, it becomes stickier as it gets bigger.

And so the data business and analytics business and clearing business all have that same kind of network impact. And if you can combine them all on a network, it's really not much different than Rupert Murdoch acquiring a hit show and putting it on an already existing network, and so we look for hit shows. Actually what we really look for are shows that are good, that haven't become a hit. But if we put them on our network, we believe that we can make them a hit simply by the distribution that we have and the network impact. And that's what – when we bought IDC as a data business, it had a very historical 3% growth. You could lay a ruler on their growth. I mean in a weird way it was a good business, because you could lay just a ruler on its revenue growth.

So it's kind of a GDP grower or GDP plus a little grower, and we said we can double that growth. And, it was because it wasn't that we were better, smarter or whatever than the other management team, it was because we knew if we put it on our network we could increase its distribution, make it more valuable.

So the same clients that we have that are trading are also having to manage risk and increasingly do more regulation and ultimately clearing, which gives netting and capital efficiency. And so it's the same customer base. And what we got our head around was, we'd like to provide all of that stuff to all of our customers. But if somebody wants to just jump on our network at one point in that node and just use part of it, that's fine too. And it gives us a cross-selling capability for the rest of it.

So it's a holistic idea and bringing these new – this new content on to the network has really worked for us, and it's been working. And it's gratifying because, as I mentioned to you privately as a manager, you sit around you say, I think this should work. It's nice that when you do it [ph] and it does (03:45) work.

Q

Yeah. Let's...

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

A

You look smart, the employees appreciate you, shareholders a little bit.

Q

That helps. So, if we were to dissect that a little bit. So thinking about the data services business, and taking a step back 2017 was quite successful I think you guys are putting up around 5-ish percent organic growth and, when you include some of the deals on currency constant basis closer to 6%. So looking out into next year and the year after that, are you starting to put some forward-looking metric and I think investors still try to understand like how much of that is telling us about really the forward revenue [ph] factor (04:23) for the business.

Copyright © 2001-2017 FactSet CallStreet, LLC

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

A

Correct.

Q

So [ph] SAV (04:25) up 6%, what does that sort of mean for revenues as we think about the next 12 months and I guess more importantly where is the demand coming from?

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

A

Yeah. So let me break it into two answers for you. First of all, when you run an exchange we're very – you look smart on days when there's a lot of volatility, and you look like an idiot on days when there is no volatility, and the reality is you had no control over it. And so, we, as an exchange, benefited from an analog to digital conversion and a conversion of, if you think of exchanges 15 years ago, most exchanges had the name of the city that they're located in, in their name. And the further away you got from that city, sort of the less important they were. Well, today with going analog to digital you can – who knows where the servers are that Google is using when you search for something, it doesn't really matter. And so today exchanges are international. So we followed an analog to digital conversion and a domestic to globalization conversion.

And fortunately in the trading business for us, that's still growing. But as a manager I didn't know if it would or not. I mean I had no control over it other than to try to get more customers and what have you. And so we started to look at other parts of the business, where we had more control, because I think that's my job as a steward of your capital. So I didn't want to wake up one day and find out the business had actually stopped growing. And so we started to look for ancillary businesses that we could control and the data business is one of those.

And to your question, the nice thing about the data business is people tend to sign one-year agreements typically or three-year agreements or agreements that auto renew but have some escalators built in. And so you don't quite have that same fear as a manager that volatility may fall off. So today about half of our business, plus or minus, comes from renewal type contracts that are not necessarily volatility related and about half is levered to volatility. And of course I'm still an optimist and so when more volatility hits markets and I want to participate on the upside for that. So, it seems like a nice mix right now. We didn't engineer it that way.

And as you said, on that fixed part of the business, the contractual part of the business, we can look at the outstanding value of those contracts and give you some kind of forward indicator. And mid to high single-digit growth seems to be very achievable for us just on a forward look. And that's coming not from price increases, because we've been pretty judicious about having like 1%, 2%, 3% kind of GDP price increases. It's coming from an increasing wallet and an increasing demand for data and information as all of us as individual consumers and as you guys as corporations are just looking for more information for decision-making, regulatory purposes, analytics that you're running. And it's kind of just part of the ecosystem that we're in right now and I don't see it abating anytime soon.

Q

Copyright © 2001-2017 FactSet CallStreet, LLC

Makes sense. You mentioned pricing, so let's talk a little bit about that. I guess back at the Investor Day, you talked about something like a 30-ish percent of the overall growth in the data services business coming from pricing.

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

A

Yes.

Q

When you sprinkle in a little bit of like the U.S. cash equity controversy that has been around for a while back and then kind of resurfaced in the last couple of months, that begs a lot of questions. So how much do you actually get from pricing? So, again, two questions there I guess. A, within that 30% growth from pricing, how much if any did you expect to come from U.S. proprietary cash rating revenues? And then two, when you look around the data business holistically, which pieces of the puzzle you think are least sensitive to pricing increases?

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

A

Yeah. So, let me start with the middle of that, which is, you say 30% of our growth is price increases, but when I say let's say 6% growth and you take 30% of that, what we're saying is 2% price increases. So, I don't want people to focus on the 30% – focus on the fact that we think pricing is kind of GDP – as a GDP grower, not as a driver of the real top line revenue growth that we're going to have.

The reason we think about it that way is that, we do have some products that are very proprietary that are very sticky and that we do probably have pricing power well above that number. But we also know that, when we pull that lever, you get a lot of blowback and so you got to be careful. You got to keep some of your sales people away from the lever. And so, we like to think about to our sales people and the managers let's actually get new customers, let's have customers that are happy with what we do. Let's have customers that think that we're honest about the way we price things and want to buy more from us, that's a better long-term strategy.

Now in cash equity, if I could just deviate a little bit. We went through this period where cash equities went from analog to digital and then we had this thing called Reg NMS in the United States which for all intents and purposes said, we want to have more competition for exchanges. The New York Stock Exchange probably being the ground zero of that which we own, thankfully not at that time, but we need to have more competition so we created this Reg NMS and oh by the way if – and we're going to make it easy for new exchanges to form up and when new exchanges form up, we're going to make the customers have, you know, be forced to buy their data and be forced to do business with these new startups.

And so, we created the Flash Boys era where lots of new exchanges formed up and people were forced to connect to them and exchanges had some pricing power and data, and so as they were losing market share, they were raising the data fees to offset that.

And a lot of your question and a lot of the comments you read about data in the U.S. cash equity space comes from that era. The reality is we're not in that era anymore. It's not that interesting to start a new U.S. cash equities exchange anymore. People aren't necessarily buying more U.S. cash equities data. In fact, the data will tell you it's just the opposite. That is a shrinking business. And the proprietary data that New York Stock Exchange sells, we finally in our last earnings call gave more color around it. It's a $90 million business for us that hasn't been

Copyright © 2001-2017 FactSet CallStreet, LLC

growing and we don't expect to grow. So, when I talk to you about growth in our data business, I've already subtracted this X growth U.S. cash equity business out of that.

In other words, we've known of that trend for a long time, I'm not sure the market had. And to a certain degree, a lot of the debate around cash equity sort of comes from this Flash Boys era. For those of you that follow our space, high-frequency trading now is not what it used to be, being the first into an exchange is not the edge that people think it is, because we have exchange – as exchanges have taken away a lot of the benefit of being first by doing things behind the scenes to make the markets fair.

And I think the Flash Boys book maybe is a catalyst, but also got that in the public conversation, caused everybody to kind of change behavior and I'm not sure – we kind of argue over these data feeds and what have you, but it's a very backward looking conversation. And it's weird to me because it's a shrinking number for most people and you would think that the people who don't – who want to complain would be complaining about some other part of financial services, where the numbers are going up, I know the spend is going up.

Q

Yeah. Make sense. Shifting gears a little bit, I want to talk a bit about the credit opportunity. And you guys recently made a few pretty interesting acquisitions, one being the BAML index business and then obviously BondPoint. Can you discuss the opportunities you see for these businesses as part of ICE and sort of what do they bring both in terms of your data, opportunity and the trading opportunity? And I guess wrapping it all up bigger picture, you guys have multiple pieces of credit, you've got the data, you've got the dealer to dealer market you're trying to grow, now you've got the BondPoint with the retail platform, you still have the CDS business. If you kind of put it all together for us, what is the opportunity and the ambition I guess for ICE in credit trading?

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

A

I'm pretty impressed that you recognize what we're doing here, because a lot of people – in your question, you recognized the fact that we – starting at the back, we have an analytic platform that analyzes the value of people's portfolios. We have a data platform that prices [ph] $2.7 million (13:58) securities a day. We have a real-time platform. We have a platform that's now providing liquidity indicators. In other words, if you want to actually sell something into the market, how illiquid is it and what would the price degradation be.

We have a product that says if you were going to sell a fixed income instrument, what should the best price be that would give you best execution idea. We oversee LIBOR now, which we're trying to fix. We have a mortgage platform for people to move digital mortgages around. We have a dealer platform for bonds and now we as you mentioned we've bought a fixed income platform for dealer to client space.

So, the vision is really let the business of buying bonds is becoming and credit broadly is still one of the most analog businesses and people are needing to take costs out of their each systems and parts of that chain are becoming digitized. And so, I'm not suggesting that bonds are going to trade on an exchange like a bid-offer two-way price like a stock exchange. They may not, they may never, given the nature of them.

But I do know that people want to automate as much of the workflow as they can and putting all of those various pieces on our network and then having the relationships that we have and making it easy for people to get access to these various points, I think will cause all of them to grow faster than they would have grown individually. And

Copyright © 2001-2017 FactSet CallStreet, LLC

I'm kind of agnostic to which point in that node is the fastest [ph] growth (15:37) – which is the net beneficiary of that holistic approach.

And so I answer it that way because the most recent thing we bought was this company BondPoint which is a dealer to client trading platform and we got a lot of investors saying, well, how are you going to do X, Y and Z and how are you going to take on this competitor and what are you going to do about this. And when we kind of shrug and say, it's not that important to us, we're really being honest because it's like that's just one more product in a chain of products and we hope that people will come somewhere into that chain, because they – because we now have their attention by buying this new piece. And I think we've shown time and time again that when you get them – get these things on a network of -they get a network effect, they become more valuable, stickier, and so we're pretty optimistic right now about what we've assembled in a kind of a quiet way without having to pay a lot of money in a space that is ripe for going from analog to digital.

Q

Got it. Makes sense. So shifting gears a little bit, I want to – sticking with the trading side of business, let's talk about energy, ICE's Brent business is on track for another really strong year, another record year I guess, I think volume's up about 15-ish percent or so.

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

A

Yeah. It's amazing. So as much as I complain about not being able to control volatility, we have a product that'll have its 20th record, our flagship product will have its 20th record year.

Q

Right. I guess at the same time, there are concerns in the marketplace that with more production in the U.S. and rising exports, it's a risk to Brent as a dominant contract for a lot of commercial users. I guess, what's your take on that, part one? And part two, kind of pivoting back to the original point, where is the growth coming from, because it's not like volatility has been through the roof in the oil markets this year?

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

A

Yeah.

Q

So how [ph] is sustaining this (17:27)?

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

A

So it's kind of – it's a good question, because the reality is the opposite of what people think. We also trade West Texas Intermediate crude, West Texas Intermediate crude which is U.S. crude, is crude oil from West Texas that is delivered to you if you own the contract or if you participate in the physical markets, it's delivered to you at Cushing, Oklahoma in a pipe, that's West Texas Intermediate, U.S. crude that we trade as a future. That is not

Copyright © 2001-2017 FactSet CallStreet, LLC

crude from fracking in the Bakkens that goes to the Port of Houston and get put on a ship. None of that crude there is the crude that we're all kind of excited about as Americans that is changing our energy infrastructure.

When you take U.S. crude and [ph] out of (18:20) fracking and send it to the Gulf and put it on a ship it becomes Brent. Brent is ship-borne crude oil. And so it's highly correlated to West Texas Intermediate crude, because it's from the U.S. But once it hits the sea, it's another barrel of light sweet crude oil that's afloat. And so it's why Brent is doing well. And the contract that is at risk, and at risk for us too is West Texas Intermediate, as we know it. That contract needs to morph into what they call WTI Houston, which is actually U.S. oil that's able to be exported and put on a ship.

So our WTI contract has been doing well because there is – people have been – we've been producing so much oil in the U.S. that there's a lot of oil in storage in Cushing, Oklahoma and it's kind of trapped there. And there are all kind of supply issues and logistic issues around Cushing, Oklahoma. And those are fun to trade. Traders like these kind of imbalances create volumes and risk management around that.

But it's not because you can't get that on a boat, it's a different infrastructure that is actually being exported, if that makes sense. So long story short, I think WTI, the traditional WTI Cushing contract will have to morph into an export contract over time, but meanwhile Brent is going to continue to do well because that is what the global seaborne oil contract is.

Q

Makes sense. I want to hit – staying with energy for a second, I want to hit on one of the recent transaction you guys made which is NGX as part of the Trayport sale. It seems like an interesting asset. Can you spend a minute on where that fits within ICE's vision, within its energy market and again and how I guess we should think about the revenue synergy opportunities that this product could be within ICE?

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

A

So for those who didn't follow us, we tried to buy a company called Trayport, we did buy it but the regulators made us sell it. And honestly it was an AT&T issue where we said we're not a vertical and they said – it is a vertical and they said no, it doesn't matter, you're too powerful. So a lot of empathy for what's going on in that deal because I lived it in much smaller scale and in a way that many of you never even saw, but in terms of our world it was tough. So we're forced to sell this company and it was a highly desirable company. And so we decided to make lemonade out of those lemons and we sold it to the Toronto Exchange, TMX, and in exchange took one of their businesses that we always desired, which is a exchange and clearinghouse called NGX. NGX is a natural gas exchange, dominant in Canada that does physical delivery. So its clearinghouse, if you will, also schedules the pipelines and make sure that gas is delivered.

And the company also then had a series of indices that came around that for Canadian energy products. And so, it was a very good fit for us because we run a financial clearinghouse and we have an index business, and this will extend our capabilities into doing – getting deeper into the supply chain. And again, going back to my network theory, hopefully we'll broaden the access to that from beyond Canada and maybe take some of the techniques and tricks that they have in there and expertise and use that around the world, in addition to having more indices, which we are today a large index provider.

Copyright © 2001-2017 FactSet CallStreet, LLC

Q

Makes sense. Shifting gears, but staying I guess within transaction part of the business, out of your European rates business and financial products broadly, it's nice to see finally some growth, and we're starting to finally see movement on the European rate side of the equation. I guess taking a step back, how much upside do you still see in that business as we normalize UK and then eventually in European rate environment?

And then secondly, obviously there's been lots of concerns around LIBOR and I know you guys have launched an alternative contract SONIA as a potential – to potentially capture some of those revenues. So, tie it together for us I guess on both the cyclical uptake in anything idiosyncratic you guys are trying to build.

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

A

Sure. So our rates business in Europe is, we are the short dated interest rate futures for both UK interest rates and European interests rates, so sterling and euro denominated interest rates. And it's been interesting, because the sterling business has done really well over the last couple of years. Now part of it is Brexit, so anticipation on what the Bank of England is going to do, but also it's been moving very much in lockstep with the Fed policies. So, there is a – in a way that we never really thought about. But there is a thesis or something in the market, risk management trend in the market whereas the U.S. is changing its interest rate policy. There is an assumption that UK and Europe will also follow that policy in some way in the future since we're trading futures.

And so it's amazing how levered it is to U.S. policy, in a way that we hadn't thought about. Now clearly with Brexit, the Bank of England is going to be doing things to manage through that and manage the economy so that you can imagine that contract doing well. And I think longer term Europe is doing well and I would think the ECB – doing well as a economy. And I would think that the ECB is going to be adjusting what they do and maybe the laggard of those three currencies, so we're pretty bullish looking forward on the growth prospects of those contracts.

We bought those contracts a few years ago. We inherited a bunch of market maker programs and other kinds of contractual trading relationships that we had to let expire before we could get control of pricing and how they operate, which we now have. And so we've been putting more rational structures that are much more like our legacy business in those. So we're well poised to profit if you will from those changes going forward. Let me talk a little about LIBOR, so LIBOR – we bought LIBOR after it had been allegedly manipulated and took over its construction. LIBOR is an estimate of interbank interest rate that's provided by the LIBOR participants, so they give us an estimate and we compile that. The complaint against LIBOR is that it is an estimate. But what I don't think people realize for years, we've said give us the estimate and then we've also said, give us all of your short-dated interest rate trades and then help us correlate what you did in the market to what you see in your estimate. So LIBOR has while it is an estimate, it's underpinned by real transactions in a way that it had never been done before. And so, it would be very hard to manipulate right now and it would become very obvious to the construction of that if somebody really tried to do something like they did in the past.

So it has a lot more heft to it, a lot more confidence in it than the old LIBOR. But still that being said, the regulators in the U.S. and in Europe want the markets to try to move away from LIBOR. And in the U.S, the Fed has said, it would be nice if everybody would move to an overnight Repo rate. And in Europe, it would be nice if everybody would move to this thing called SONIA. And the problem with those two with – it's a great idea, if you're an academic inside one of the central banks.

Copyright © 2001-2017 FactSet CallStreet, LLC

The reality is, those are overnight rates and if you look at what is benchmarked to LIBOR, it's largely three-month LIBOR and one year LIBOR and there is no such thing as three-month SONIA or one year SONIA and three-month Repo and one year Repo, they don't exist. So when you ask people well, how the heck are you going to take an overnight rate and benchmark a three-month contract to it, they say well we're going to force people to trade. And I might come back and I fundamentally believe this is that it's hard to force people to trade risk that they don't want to have. And honestly if people are trading for the sole purpose that somebody's forced them to do it, they're more likely to manipulate the damn thing, because if you're not really interested in the risk then you're not really interested in pricing the risk and you're more inclined to say, well what the heck it's a very thin market that a few people are forced to trade, maybe I can lean on it a little bit. And I'm not sure we did anything to fix the underlying problem. And so therefore our position has been I don't think LIBOR is ever going to go away. These other things may grow and may prosper, but I think LIBOR is so fundamentally rooted and during the period that this new blossoming trading is going to happen, we continue to make LIBOR better and better and better and better.

And I think by the end of some transition period, you're going to see a lot of faith and confidence in LIBOR and a lot of people asking why should we be forced to trade something. And so that's the strategy we've had. Now that being said, we are participating in helping people to trade alternatives and we did list a SONIA future. I wouldn't buy my stock necessarily on the growth of that FYI. But we are going to work to try to get it going, but I'm skeptical.

Q

Fair enough. Next question I wanted to ask, just hit on M&A and I guess LSE specifically fully acknowledging that you may not answer. But obviously ICE has previously been interested in LSE. Clearly nothing happened and I guess most recently you talked about just the complexities of Brexit and how difficult it is to really make a strategic decision with something that you really don't know what the environment is going to look like.

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

A

Yeah.

Q

Clearly we've seen management changes at LSE, does that change anything for you guys or the Brexit hurdles are still too meaningful to overcome?.

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

A

Let me provide some color about what I said. We had an opportunity to potentially bid for the LSE. It was in February and the Brexit vote was in May or June as I recall. So, it was four months before the plus or minus the Brexit vote. The Chairman wouldn't talk to me, the CEO was insulting me and the management that my team was trying to get data from, took a pretty good cue from the senior management on how we should be treated. It's a company that has probably the biggest risk portfolio of anybody in our space with their clearinghouse, and as I said we had four months to Brexit. So, it was pretty easy for me as a manager to just say, we're not getting involved in this like, if we can't work together to figure out how our combined companies would look and figure out the risks and how we can mitigate them, why would I put my shareholders through that. Even if – and by the way,

Copyright © 2001-2017 FactSet CallStreet, LLC

LSE is a great company and has done really well. And so you could hold me accountable for maybe missing something. But I also hope my long-term holders realize I didn't want to put people through a process where it wasn't really clear what the outcome was going to be for us.

We have now have obviously more clarity about the Brexit vote. The Chief Executive is no longer there. And so, I don't – and the Chairman may or may not talk to me, I don't know. But we have a different environment and the company is – their company is doing well. So, I'm not sure they need to do anything and I'm not sure we need to do anything, so we'll just have to see where the chips fall with that company.

Q

Yeah.

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

A

But I wish them well. I mean they're doing a damn good job.

Q

Yeah. Another topic that's obviously been top of mind over the last couple of days has been around bitcoin. So, I wanted to get your thoughts. So, couple of questions there. We've seen a number of your competitors announce a launch of a futures contract. ICE has not so, A, what are your thoughts around that as a future's product? And B, ICE does have a ownership stake in a...

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

A

Coinbase.

Q

... Coinbase, which I think you acquired back in 2015.

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

A

Yeah.

Q

And I think their investor base quintupled since close to that. So, how should we think about economics of that investment for ICE? And I guess any incremental thoughts you have on the topic?

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

A

Copyright © 2001-2017 FactSet CallStreet, LLC

Yeah. So, we were an early mover into the cryptocurrency space with that Coinbase acquisition. It's a minority stake and we bought it because we didn't understand this stuff and the guys at Coinbase are really smart. And the quid pro quo was we'll lend whatever patina that we have, particularly the New York Stock Exchange has into your investor base. But in exchange, we need information and educate me and guys that are older that don't fully understand this stuff.

And that's been a great relationship and we talk to them probably daily and they've done a good job. Let me just say, they will not need to raise any capital, put it to you that way. So, I'm glad we got in early from an investment standpoint. I don't know what to make of cryptocurrencies. The thing about a future is that we are – we as a futures exchange would be putting a product out there that would allow the marketplace to discover what people think the future price of that product should be or whatever the cryptocurrency is and then you need a buyer and a seller to agree on what that future price is going to be.

In other words, it's kind of easy to imagine the buyers right now, because there's a flood of people coming into the cash market right now. It's harder to understand who is going to short that contract. And when you think about the people that where – where is the – where is all of this wealth that has been created, it's in a lot of Chinese miners, algorithmic guys that I don't know and understand that got in early. And to short that would mean that they've decided to exit and through a legitimate high-standing regulated venue they're exiting. And I look at that and just say, is that going to work out well for me as a venue. And it may, maybe – we may be stupid for not being first on that. But if we enter it and we certainly spend a lot of time thinking about it, and we have – and the fact that we haven't entered, it's not suggesting we missed something. We're trying to be thoughtful about if we get into that business, how do we get in it, what would the right product be, what would the – what are the right people you want to surround that product, and how do you make it successful as that market becomes more regulated and more, I don't know a little more confidence in it as somebody that owns a New York Stock Exchange will put their name on it.

And that – and I don't have the answer. I mean, I wish I knew, I wish it was obvious. But we didn't think it was obvious to rush out a product and be first and settle against an index on a lot of exchanges that are not particularly transparent.

Q

Yeah, makes sense. Maybe we've got one couple of minutes for a question from the audience. If you have a question just raise your hand, there's one up here please.

Q

A philosophical question about a shift from active to passive. I think you can see in your data business how that's benefiting your data business. But it is also partly offset by some headwinds in your trading business? Like do you think that's partly responsible for the lower volatility that we've seen recently?

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

A

I don't know. I honestly don't know the answer. I can't figure out why there's low volatility. And when we sit around inside my company and somebody says, well when we return back to normalcy blah, blah, blah, my mind goes, is this a new norm like maybe we aren't reverting to an old mean or maybe we will, but maybe not in my lifetime. And so I just kind of live in the moment that I better just assume that we're in a low volatility environment. Now

Copyright © 2001-2017 FactSet CallStreet, LLC

what's weird is that we've been in a low volatility environment, but yet there have been bursts of trading activity that have been good for exchanges even in a low volatility environment.

Maybe as people are looking for alpha or what have you. I do think the passive thing is here for a while and some of the products that we trade in our commodities exchanges are making their way into ETFs. And they're being securitized if you will or creating – securities are being created around them, use the right thought. And that's actually having spillover benefits back into the debt market as people hedge out these ETFs and balance risk and so on and so forth. So you're right and we've done very, very well in the data business. We also have systems to calculate NAV. We have systems to provide proprietary indexes for people that are moving into that space and so on and so forth. So and we are the predominant listing venue at NYSE Arca for these ETFs. So we've done well in that world. What I can't explain the low volatility, I honestly can't. By the way fortunately I don't have to get alpha in the same way you do. I just have to manage a company.

Q

Jeff, do you have to own the transaction for data to be valuable to you? Are there opportunities for you in data where you don't create the transaction? How do you think about that over the next three or four years?

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

A

The answer is yes that we want as much information as possible. We have – so let's just talk about cryptocurrencies for example. We aren't trading any of those, but we have a cryptocurrency index. We have cryptocurrency feeds where if you do want to see what's going on on these exchanges, you can buy that stream of data from us. We have a feeds business now that has over I think 150 different venues that are providing data to us that we resell. So in the feeds business, we take the data, we clean it and then we put it in a format that all of our other data is in and then we put it on – we put it basically on a server in a pipe that makes it easy for people to dish up. And so, we've kind of gotten over the proprietary data hurdle already and said, let's just be a big data provider. But honestly, we always like to couple some proprietary things into that stream because it makes us a little unique and different. It actually helps the sale of the commoditized data to put a little sugar on top with some of the other stuff we have.

Unverified Participant

Okay. Well, I think we're out of time. So thanks everybody. Jeff, thank you very much for being here.

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

Thank you very much

Copyright © 2001-2017 FactSet CallStreet, LLC

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2017 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.