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# Intercontinental Exchange, Inc. (ICE)

J.P. Morgan Ultimate Services Investor Conference


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# MANAGEMENT DISCUSSION SECTION

## Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*

Hi. Good afternoon. It's Ken Worthington again. I cover exchanges here at JPMorgan. With me I've got Scott Hill, who's been ICE CFO since May 2007, long time.

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

Yeah. I was just telling [indiscernible] (00:00:16) put it in perspective, when I started in the job, my son was in the fifth grade. He's graduating college this year.

## Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*

So, it's scary.

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

Yeah.

## Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*

So, Scott oversees the company's finance and accounting functions as well as overseeing global clearing. Prior to ICE, Scott spent his career at IBM working through various accounting and finance functions in the U.S., Europe, and I didn't know this, Japan. So, thank you very much for listening and for joining us here today.


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# QUESTION AND ANSWER SECTION

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*

Q

So, maybe the place to start, ICE is an exchange where the business is services conference. So, why are you here? Why does it make sense? How do you fit into sort of the business services realm?

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

A

Yeah. It's a good question. And by the way, thank you for allowing us to come back. It's our third year at the conference and it's a good question because people do in a lot of places, particularly investors, who maybe haven't followed the story quite so closely, do still associate us predominantly with our roots which was in the trading space. Our CEO and Founder started the company back in the late 1990s, and he started around the desire to more efficiently buy and sell power and the power plants that he was building.

And it's been a great history of building a trading business, and it's still an important part of what we do. It's nearly half of the revenues that we generate. But as I look at the other people that are at the conference and start – ADP in payroll services; and Equifax, it provides credit services; and Iron Mountain, it provides data storage solutions. Effectively, if you step back and think about what ICE does, even on the trading side we run a technology platform that effectively provides our customers with a risk management service. It's the place where they can come and manage the risk of oil prices.

If you're Delta Airlines and you need to price tickets, you have to know how much oil is going to cost. If you're Archer Daniels Midland and you're going to buy sugar, you need to know what the cost of that sugar is going to be in order to price your products. So on that side of the business, we provide risk management services. We've got another part of our business, that's our data and listings. And if you think about it, the listing service is exactly what it sounds like.

If you built a business and you're an entrepreneur and you want to raise capital, you could come to the New York Stock Exchange and list your company and that's a service we provide, access to capital. And then the larger part of that data revenue is really around the fixed income business and that's effectively the service of providing price discovery. In a world where finding out the price of a bond is not something that's simple to do, we make it easier not only for you to know what the price of that bond is at the end of the day, but also what that price is during the day and now on a virtually real-time basis.

So, I think there is a lot of similarities. It's a constant technology platform. It's services that are provided across the network and the technology. It's a business where 53% of our revenues are annuity-like and recurring with high retention rates. And therefore, it's a business that generates operating margins of around 60%, free cash flows of nearly $2 billion and where we've demonstrated that our commitment to returning 100% of that cash other than for M&A uses is something we're readily able to do.

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*

Q

So, I've covered you for a long time. To me, there's something special about ICE, and I think like the stats are impressive. But you've been there a while, you worked with the CEO, Sprecher for – Jeff Sprecher for a while.


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What makes it special? Like this has been a great stock for a long, long period of time. You've got very high operating margins, good growth, you've really grown the business tremendously, but what makes it special? What sticks out to you?

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

Well, I think you mentioned a big part. I mean, there's no question that a part of – an important part of what makes ICE special is our CEO and Founder, Jeff. He is the containment engineer. And I think effectively what's made us successful as a company is, we consistently look in markets for areas where customers in those markets are having difficulties and we wanted to go and improve the market for those customers.

So, it's the engineering, problem-focused, customer-serving culture that really was – how Jeff formed the company and it's still how we operate today. And so if you go through the history, as I said, we started because Jeff needed a way to more efficiently buy and sell power. We moved deeper into the energy markets and then into the Ag markets in a world where most trading occurred on the floor and there was a whole revolution of analog to digital where that trading really moved off of the floor and on to a screen, a far more transparent, a far more efficient means of trading. And you see it in the fact that the size of all the markets that we offer trading at the end of the day are significantly larger than they were 10 to 15 years ago.

If you go back to the financial crisis and the big, ugly, unknown at that time was CDS. There's trillions of dollars of credit default swap exposures and it's going to knock over every one of the big bank. And the reality was, it was scary because there wasn't transparency. And so, we brought clearing as the solution to CDS and the lack of transparency. And as it turns out, a lot of the positions were offset. And by the time you net it down – literally net it down maybe 90%, 95%, you found out that the positions weren't that large. They were, in many cases, collateralized. And by moving it into the clearing, we made sure that they were collateralized.

And then ultimately, again, you moved to the fixed income market and the acquisition we made in IDC back in 2015. And that was really, again, seeing a market that really lacked transparency. The large financial institutions were shrinking their balance sheet of bonds that they held. There wasn't efficient trading platform that existed. And we believed we had the capabilities to come in and solve that problem, to make the transparency greater, to offer more real-time pricing. We're working now on creating trading solutions for that industry. And so, what makes us special is we spend every hour of every day looking for problems that our customers and markets are dealing with and thinking about ways to solve those problems.

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*
Q

Okay. I want to walk through a couple of the deals and talk about what you did to give people a better sense of who you are. So IPE, you bought into in energy exchange, what did you do, how did you kind of transform what you bought to make it better?

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

So, IPE was the home of the Brent oil contract, which is still where two-thirds of the world's oil is priced. We at the time were U.S. gas and power. And so, what we saw was the power of the Internet, the online trading solution that we were able to provide to the U.S. gas and power market. And we looked over at a world where the oil market was still trading on a non-transparent floor.


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And we thought by bringing that world market for oil on to an electronic platform into a transparent trading venue that that market could expand and become accessible to more people that were exposed to the price of oil. And so, that was really the earliest form of an acquisition that was all about taking the analog to digital.

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*

Q

And so, the next deal that was pivotal in my opinion was the New York Board of Trade. So, what did you buy with the New York Board of Trade? Was it kind of a smaller deal?

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

A

Yeah.

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*

Q

But, gosh, it was pivotable. What did that do for clearing?

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

A

Yeah. So, it was important for a couple of facts. Number one, so we did the IPE deal in around 2001. 2007 was when we did the New York Board of Trade deal. At that moment, we were only in the energy space. And the first thing that deal did is it moved us from only energy into a broader set of commodities that now included agricultural products; sugar, cotton and coffee are the biggest ones, and then some financial products as well.

Importantly, it was also a business that was traded on the floor, not the screen. And so, there were expense synergies and also revenue synergies from bringing that trading on to a screen. But then you really touched on the transformational part of that which was, it was our first clearing [ph] house (00:09:19). And so, one of the problems that we recognized was that a lot of times the disconnect in people's willingness to hedge their risk in the trade really was a counterparty concern.

I'll trade with Ken only as long as I'm confident in his balance sheet, and he'll trade with me only as long as he's confident in my balance sheet. Clearing solves that problem because it steps into the middle of our trade, it collateralizes the risk of both sides, it manages that risk over time. And then in six months, when Ken needs delivery of the oil and I need the money that he pays me to clearing house, make sure that you deliver on that.

And so, that was the moment where I would argue ICE pivoted from its first leg of the stool of trading into the second important leg of the stool which was clearing. And subsequent to that, we now run clearing houses in London. We took over the clearing of our energy business in 2008. We run a clearing house in the Netherlands, a clearing house in Singapore and a couple of clearing houses in the U.S., all on the same technology.

And so, our customers know how to get to us, our customers know how to connect to us, and they understand the technology footprint. It also generates great efficiencies in spending because we don't have to maintain technologies for all these different geographically diverse, but technology similar benefits. So, there are a lot of benefits to the New York Board of Trade, but clearing was the key, yeah.

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*

Q


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And if you had to guess right now, how big is – like, I don't think you break it out and it's all bundled, but clearing would be 25% of revenue, 20%, 30%? Like it's big for a business that you weren't in before that little acquisition.

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

Yeah. Just to give you a sense, in most of our products, the split between clearing and trading revenues is around 70% clearing and 30% trading. And so, in the NYSE portion of our trading business, that's obviously cleared away from us. But if you back that out, it'll give you a sense that clearing is a large portion of the revenue. And I would suggest to you that the small investment we made to build that clearing platform is without question the highest ROIC deal that we've ever done. Good question.

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*
Q

NYSE, again, another sort of transformational deal. What did you sort of get and what did you do with it?

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

So, at the time, the thinking around the New York Stock Exchange deal was – in 2011, we worked with a friend in the audience to think about potentially doing a hostile on the NYSE where we were predominantly focused on their interest rate business because we were deep into commodities, but we really didn't have a meaningful financial exposure.

And so, in 2011, we worked with Nasdaq and try to break up the Deutsche Börse deal with NYSE; all about the interest rate business. That unfortunately didn't work out. But if you roll forward a year that other deal had fallen apart. the life business was still really interesting to us. But we were at a point where we knew if we wanted to do it, we needed to do the whole thing. And so we had to step back and ask ourselves, what else is in it for us? Because clearly the interest rate business is interesting. We're able to take that volume, put it on to our existing technology, eliminate pretty much all the expenses associated with it.

And although the first year after the deal volumes dropped a lot, it significantly recovered and we're well-positioned moving into Brexit. But that deal, first of all, brought us deep into the financial derivatives space and really expanded the footprint of asset classes that we have to offer across the existing technology.

And the second thing that it clearly did was it raised the profile of the company. So even though the New York Stock Exchange is a small part of our overall financial business, it's a really important global brand. And so, all of a sudden we're able to engage in conversation with governments, with regulators, with customers that we might not have been able to do before. And so, that's really helped as we wanted to solve problems, to work on emerging regulation. That brand and the relationship that's enabled has been really important to us.

And then I think, again, that was the beginning of the transformation to the third leg of our stool which was data. We've always been in the data business, but it was largely the exhaust off our trading. It's 12% to 15% of our revenues before the NYX deal. It moved to about 25% and it expanded the nature of the database business we're in. Of course, it had exchange data, but also had the calculation abilities for ETFs. It had indices, it had a network. And I will tell you, at the time, we didn't understand the importance of the network, but man, we do now.

And being on that network having so many of our customers connected to that network where the question isn't, am I hooked up to Intercontinental Exchange? If that's a yes, how much content can I take through that network?


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So, that was really potentially front running the next phase of your question. That was the beginning of a realization on our side that is important as the trading and clearing was. You really can't manage a risk if you don't have the data to do it, and it really started us down the path of really establishing the big data.

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*

Q

As just a point of interest, did you go into New York realizing that data could be something or hoping, or was it something that you kind of figured out once you got your arms around New York Stock Exchange, and you saw kind of what they were doing and what could be done with it. Was it after the fact or was it before the fact that data was something that might be more attractive for you?

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

A

So, I'm going to put it in perspective slightly different wing and come to it, because I think it's a really good question. So when we made an offer for the life business, we offered $6 billion. When we made an offer for all of NYX, we offered $8 billion. We sold Euronext for $2 billion, along with some other technology assets. And so if you think about it, we offered $6 billion for just the interest rate business, we got paid to for the Euronext exchange business and we offered $8 billion overall which by my calculation says, we got the network that the NYSE had invested probably $600 million building data centers in the network and the NYSE bring it effectively for free.

I talked about the value of the brand and what it's meant to us. But I will tell you, we knew the value of data. We underestimated, or I'll say it differently, we didn't appreciate the value of the network. So when we went into – we had a lot of conversations about, boy, we wouldn't have built two data centers, and wow, why are we network service providers?

And it became pretty apparent to us pretty quickly that in order to convince JPMorgan or a buy side firm or an old trading firm to allow us to send our information into you, you better have really good information security protections, you better have really good technology, you better have a secured network, you better have data centers that are securely guarded that people can't access for negative purposes. And so, it became really clear not only the importance of the network, but how sticky it was.

Because now, once you connect it, whether you connect to us because you want to trade on the New York Stock Exchange or you connect because you want to trade on a future platform or you connect to us because you want to buy our data, we're in your system. We're a trusted partner to your technology team. And now, my sales pitch changes a little bit because, hey, I appreciate that you've hooked up to me and you're consuming our fixed income prices in our energy data package, who are your other data vendors? Oh, you buy from this exchange or that exchange. We can sell you their feed. I can be your single stock for all your data needs in that network again, which we've added content through IDC. But that network that we bought with the NYX that again I would argue whether – and our value calculation at that time has turned out to be strategically invaluable.

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*

Q

And so, moving from the past more into the present, talk about IDC. So IDC was again another transformational deal. It really built you out in data, which honestly is really why you're here today. What are you doing with data? How are you packaging it together with trading? There is a link between the two. Can you maybe flush that out? And then kind of what the outlook is?


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The growth rate had been more modest here and it's been building up, and it's sort of at its – I think its highest level this past quarter. And the growth outlook looks even better as we go into next year. So, what did you buy and why are you here?

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

Yeah. So one of the things you hopefully heard me say a couple times is the importance of the network that we've got and I mean that in the literal sense of the physical network. But it's also the network of customers on our trading platforms that consume our product. And that network becomes more valuable when you're able to provide a diverse and growing set of content on the network. And that's what IDC really offered for us is it offered us an opportunity to expand the content that you could get across our network.

So, we went into a world where IDC is effectively the de facto home for U.S. fixed income for 90 – I'm sorry, 2.7 million securities are priced by IDC, now our ICE Data Services business. And that pricing evaluation service was an important content for us to put across our network. There were other elements of that reference data which we've got 2.7 million prices. We've got reference data information, which you could think about that as when is a bond callable and what's the coupon, et cetera. We've got that on 11 million different securities.

And again, it's more content through the network. I talked about fee, more content through the network. We had at the NYSE indices; IDC, had some more indices; and then we bought the Bank of America Merrill Lynch indices. Now, we've got index content that we can sell through the network. And so, IDC was really an acquisition that was about the content and the ability to grow that business faster.

So with NYX, the interest rate content was important, but we also saw a business we felt was running efficiently, that we could run at higher margins. We took out $550 million of cost from that business. With IDC, we committed to and are delivering some synergies in that case. But more importantly, we took a business that had historically grown 2% to 3%. The year after, we grew it 4%. Year after that, we grew it 5%; this year we're growing it 6%, including 7.5% in the third quarter. And our leading indicator, which is our annual subscription value, is up 8% for that part of our business. And that's our pricing and analytics which is half of our data business.

So, that acquisition was really about the content and a business where we felt not only could we take the existing content and some more of it, but we could take that content and create new and innovative products that serve some of the demands and needs of the customers in the fixed income space.

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*
Q

So you're in New York, New York Stock Exchange, see data, you like it. You make a number of acquisitions including IDC in data, big and fixed income data. You see the potential or maybe a greater potential for fixed income trading reading from the data and now we've got a couple more deals. We've got TMC and we've got BondPoint. You've got a lot of different assets around that fixed income business. You've got some trading businesses. You've got some data businesses. You've got actually more trading businesses. How are all those going to be kind of pieced together? What's sort of the end game here in kind of fixed income or fixed income data?

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


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Yeah. So, it goes back to what I was saying in the beginning about what makes us special. It goes back to what I was saying in the beginning about what makes use special. And I think, again, what makes us special is we're able to identify problems in markets where there are inefficiencies that are impacting customers, and we ask ourselves do we have capabilities to make it better. In fixed income, we believe the answer to that is we do.

So, first of all, in the fixed income space, as I said, we are the largest provider of fixed income prices. We've developed products that can give you real-time and near real-time price information on fixed income instruments that by the way don't trade on a routine basis. Then notwithstanding, it's still a market that doesn't trade significantly on electronic basis. And even the largest part of what does trade electronically trades as RFQ which is effectively a list of bonds that stand out for various prices, not like the electronic trading of I want to go buy a share of stock, I want to go buy a barrel of oil. It's not an efficiently traded market.

And so, we've got the data. We have trading background. We've got clearing background. And we've got a market that doesn't have the transparency or the electronic efficiency that we think needs to exist. And so we ask ourselves, what's the additional thing that we think we need to kind of round it out? And TMC and BondPoint are existing click-to-trade electronic trading platforms for bonds that give us connectivity into wealth management and retail investors and also give us a platform around which we can build the liquidity with existing relationships, with the larger financial institutions who are stepping away from facilitating the trading of fixed income and that can allow us to leverage relationships on the buy side. For example, with what we've done recently with BlackRock where we've announced a partnership to help improve the efficiency of the ETF – fixed income ETF create/redeem process.

The create/redeem process is nothing more than the facilitation of buying and selling bond. You want to own a share of an ETF, I need to go buy the bonds to create that share. You want to sell your share of an ETF, I need to go sell the share related to or sell the bonds that are related to that ETF. There are many different ways that that trading has facilitated today. They're different, they're inefficient and we're going to work with BlackRock and the rest of the industry. It's an open-source platform to make that more efficient.

And our belief is that that's one of a number of ways where we start to create more liquid trading around fixed income instruments. And that's where our trading, our clearing and the data we have all come together we think to give us a competitive advantage to being a significant beneficiary of a far more efficient fixed income trade.

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*

Q

So, at this point, I'm going to take a few minutes and pause and maybe open it up to the audience for questions. I've got another three pages, but depending on demand, are there any questions?

Q

Yes. I'm curious how the IDC acquisition integration is going and what you're going to do to build off on that business?

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

A

Okay. So IDC integration, how it's going and what we're doing to build on the business? Integration is going great. The first and most important thing we did with that business was to integrate the sales team, because it was really


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important to us that we didn't end up with a distinct set of people inside the company that will sell you energy data and Ag data separate from interest rate data, separate from bond data.

And so, it was important to us that we created an integrated sales team. And so, in 2016, the year after the acquisition, that was a primary focus. I think a part of why you've seen the acceleration in our data business generally is because as that sales force has come together with the collaborative quota setting, that integration of the sales team has really paid off.

The second key part of the integration was really from a technology standpoint, and it wasn't we're going to integrate their technology platforms in with ours because they were completely different things, it was more we were going to bring the discipline of how we develop technology, the information security around that technology, the uptime for that technology. And importantly, again, go back to the kind of lucky versus good, to put it into our secure data center and that's something that really has only recently been completed.

We have just completed moving IDC into our data centers. And I think that makes our sales pitch a lot easier when we go to customers because we can now say to them, it's not a spaghetti of technologies to hook up to IDC. There is a refined set of high-quality technology in secure data centers across a secure network, and [ph] that's like meet (00:26:51) minimum. You have to be able to say those things to customers today in order to get into the back office, and we can now do that.

And so, what's the opportunity? And so, now I've got an integrated sales force, I've got integrated technology and integrated data centers. The opportunity is, buy more from – you buy fixed income prices from us. How about our energy price? You take a feed from this other partner. How about I – or this other company – how about I provide you that feed as well? And so, the opportunity is to expand the cross-selling into those customers.

The other really important part is, ICE historically was connected to the front-office traders. IDC was historically connected to the back-office; you consume that information. And with that integrated sales team, I now can have a conversation for our fixed income with the front-office that IDC wasn't able to have and with the back-office that ICE really didn't traditionally have. And so if that's sales force integration, the technology integration, that I think is really enabling us to sell the breadth of that business to our customers.

**Kenneth B. Worthington**
*Analyst, JPMorgan Securities LLC*

Q

Other questions? Okay. So I'm going to jump through a couple of maybe big industry themes and maybe you can discuss where you see there's opportunities if there's opportunities, where are those opportunities for ICE? So what is the evolving asset management industry? We have seen some consolidation recently. Growth is definitely under pressure. We've got active to passive. So maybe the first sub theme here is big data and the evolving use of information. How does that play into what ICE is offering?

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

A

It's a really good question and it's where I think the content is really important. So we're not largely a desktop provider. We're not largely just a distributor of content. We're the provider of the mission-critical content. If you're a commercially exposed to oil prices, you're buying our energy information. If you're commercially exposed to sugar, you're buying our sugar prices. And if you're an asset manager investing in interest rates, investing in bonds, you're consuming our prices.


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And it doesn't matter whether it's an active manager or a passive manager. In fact, I would argue the shift from active to passive is really making the importance of data greater because it's that data that informs the algorithm that's making the investment. And so, I really think that active – the passive management shift has been very important to us. I also think – you talked about the consolidation. Sometimes, in the third quarter, it causes customers to re-evaluate some of their connections and to dial back because if you've got two firms that go to one, you may not need as many points of connection.

But at the same time, again, if you're looking at all the costs, who all do I buy data from and what's the different content that we consume; and by the way, how do we consume? Do we really need to consume it through a desktop? Could we take a direct feed into the back-office? Could we build our own analytics systems around that?

And those conversations more than offset any negative of the consolidation because as the firms come together, they're looking for efficiency; and more and more, those efficiencies come from data and information. And the more data and information we can get to them through our existing infrastructure, the better off they are and the more we earn from those customer relationships.

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*

Q

Active to passive, so you guys list and trade a lot of the ETFs. What does this migration of active to passive mean for you on sort of the trading and listing side? And then, bringing the indexes themselves, you bought [ph] BAML (00:30:45) you've got a real presence there.

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

A

Yeah.

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*

Q

How does that evolve at ICE? What does look like four years from now?

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

A

Yeah. So, it's clearly an area of investment of course, and we believe growth. And again, you go back, it was one of the elements of the NYX deal that we did in that. The NYSE is home to the listing of over 80% of the assets under management for ETFs. We have the ETF calculation capabilities. We can help you put together a prospectus, we can calculate the ETF, we can calculate indices for you.

At IDC, if you don't want to buy our Bank of America Merrill Lynch Index and you don't want to buy Bloomberg Barclays Index, you want to create your own, we'll be happy to work with you, we'll be happy to build your white-label index, we'll be happy to sell you the prices and you can build your own index. And so, this move over in the indexes is something that's already contributing to our growth, and it builds again from the foundation of we are the home to the majority of the ETF listings on the New York Stock Exchange.

We do have existing capabilities for calculating ETFs and indices. We have the capability to build indices, to sell to our customers or for our customers to sell to their end customers. And so, it's really capabilities across the board to a world where more and more trading is happening against the ETFs and indices and less in the individual names.


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And the important thing is, because we also sell the individual names, if the index or the ETF broadly is constructed of our individual fixed income name, customers very often will want to also consume those individual constituents to better understand their trading strategies; and obviously, we're happy to sell those individual names as well.

Kenneth B. Worthington
*Analyst, JPMorgan Securities LLC*

Q

So we're quickly running out of time. I'll open it up one last time for questions from the audience. Okay, good. I get to clean up here. Okay. So, I want to talk a little bit about MERS. So, this fits into some themes that you've talked about, electronifications of markets, inefficiency. It doesn't necessarily tie into directly at least the energy trading business or the data of the business, the way you kind of have it today.

So, what are you doing with MERS and what might be the end game there? And then, I guess, that sort of comes into another unrelated topic of Euroclear. What do you get with Euroclear? Why just sort of get in it? So these are sort of two things that kind of fit, but don't fully fit of the things we've seen you do?

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

A

Yeah. So let me start with MERS, in fact, we get to come back to Euroclear, let me know. So you're exactly right about MERS in the sense of – for those of you who don't know, MERS is effectively the mortgage registry system for about 75% of the mortgages in the United States. If any of you have recently signed for a new mortgage, chances are somewhere on there was a line that says you will pay $11 or $12 for your mortgage to be registered in the MERS database.

It's not obvious that that database – people don't trade it today. It's not cleared today. But again, it was a market that was very inefficient. It's a paper-based market. The mortgages that are filed after you sign all the papers are printed off and kept in the registry. Even today if you do what I've recently done which is to sign online those mortgages, a lot of those [indiscernible] (00:34:24) printed off and stored. And so, there was an inefficiency that existed.

And so, we've already taken a few out. We've only had control of the – our first step was to rebuild the registry which we finished in September. That gave us the right to buy the remaining stake in the company and take control of it. But even along those lines, we've worked with the company to create an eNote, which is a fully electronic mortgage that goes into an eRegistry, which is a fully electronic registry. And so, that's an example of the innovation that we've already brought.

You can imagine the amount of information that exists in a registry that has 75% of the mortgages in the U.S. And so, it's still early days in determining how could that be aggregated up to help investors in the mortgage space, to help somebody who's looking for a property to know more about the investment they're about to make. And so, it begins with providing more transparency, more clarity, more information, more efficiency in the market.

And then, over time, I think a question we're interested in is, can we develop tradable products out of that clearing opportunities, et cetera? But I think here it's an important example where our core business is positioned to continue to grow. We're a business that, on average, grows earnings double digits every year. We've never had a year where the current year hasn't grown faster than the prior year. And we're very focused on continuing that, and that requires that you're making investments to build businesses that will generate growth two, three, four years out.


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And I think this is the perfect example of one that will immediately contribute at around 45%, 50% margin. It immediately contributes. But I think it's really a good example of kind of the future growth driver 2020, 2021, et cetera, as you move out into time.

And then Euroclear quickly, we built up a nearly 10% stake in Euroclear. For those of you who have followed the company, we had a similar stake in a company called Cetip in Brazil a few years back. The investment thesis is very similar, Euroclear versus Cetip, in the sense that we thought the Brazilian market was an interesting place to invest, very commodity-heavy, not a lot of clearing or trading choice. BM&F was the big incumbent.

Cetip was an up-and-comer who is really trying to consider doing things differently in trading and clearing, but we couldn't really ever figure out how to partner with them because there was always a reluctance to why are these guys here. They're coming in here to try and take over in Brazil, and so the stake in the subsequent board seat made those conversations work a little better because they knew we didn't had a fiduciary and a financial responsibility to make sure that investment – and that paid off and that the company did well. And so, it opened up the dialogue and we were able to develop a new bond trading platform down in Brazil with them, work on a number of clearing initiatives, et cetera. Euroclear is the same thing. They're an important provider. They manage the great majority of the collateral that we hold in our London-based clearinghouse.

One of the things that we found over time is that we can be more efficient with the collateral on behalf of our customers that gives them more collateral to trade. And so, working with Euroclear to be more efficient in collateral management, is a key objective. That notwithstanding, having a conversation with them created concerns on their side or is ICE trying to move into my collateral management space. And frankly, we had a little bit of concern are they and their owners, some of the large financial institutions wanting to move into our clearing space and so the meetings were a little cross-selling, and not a lot of information.

With the 10% stake, with the board seat that – we have that dialogue as far more open and more conducive to ways we can work together to improve the collateral management flows on behalf of our customer.

## Kenneth B. Worthington

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Okay. We're out of time. Thank you very much for attending. Scott, thank you for presenting. Thank you very much.


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