31-May-2018

# Intercontinental Exchange, Inc. (ICE)

Bernstein Strategic Decisions CEO Conference


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*Founder, Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.*

# MANAGEMENT DISCUSSION SECTION

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Okay. I think we'll get started. So it's my pleasure to welcome to the Strategic Decisions Conference, Jeff Sprecher, Founder, Chairman and CEO of Intercontinental Exchange. Mr. Sprecher's overseen a tremendous period of growth and strategic diversification at ICE, transforming the company from what was a basic electronic energy trading platform, it's now a leading provider of global operator of exchanges, clearing houses, listing venues and even data services. So hopefully over the next 15 minutes or so, we'll go through some of the goal finishes of ICE and look at next leg of growth.

# QUESTION AND ANSWER SECTION

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

It's really a good place to start, Jeff, is you've had a very long history of consistent double-digits earnings growth. 2017 was a little softer on that front. As we think about how the company has evolved over the last few years, how do we think about or how do you think about what the new growth algorithm for the company? And if you can maybe talk about that from revenues, operating margins and capital.

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

A

Sure. First of all, thanks for having me, Christian. It's nice to be here. We have a playbook that we've been running over and over again that's pretty simple and we just try to keep taking in into new areas. And it's basically find analog businesses that are going to go digital and be there with sort of an ASP model or a model where we can put that content on a network and help distribute it and grow it, and in addition to taking costs out of the system as things go from analog to digital.

And we're in a transition right now at a certain degree in the company because we've been moving very deeply into the bond and fixed income space globally. That space is very immature and we've done a number of acquisitions in order to bulk up to give us some interesting pieces to bring to the analog-to-digital conversion, not the least of which is data and information. We do bond pricing and we price 2.7 million instruments a day and 10 million reference data instruments, and just bringing that kind of transparency to the global fixed income markets


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is really required before the markets are going to become very electronically traded and dealt with internally and post-trade services.

So we brought some execution businesses around that and we've launched some execution businesses around fixed income, but the company has really become much more intensive, as you know, in the data space, which is really a precursor to a lot of what we typically do in our playbook.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Okay. So I'd love to talk about fixed income space because that's a – it's like a pretty big opportunity. Well, let's kind of dig on in the data business. Can we just talk about how ICE's data business is differentiated, different relative to peers when you see the structural and secular tailwinds that you think drive long-term growth in that business?

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

A

Yeah. We see – I mean, broadly speaking, we'd see two different kinds of data businesses that many of you are familiar with. There's people that buy data or gather data from third parties and then they distribute it either on screen terminals or on networks. And then, there are people that have indexes that take data and create indices, and those are used to benchmark investing against. And we're trying to actually be something in the middle, which is we're trying to be the largest provider of proprietary information, so not a reseller of others. We're trying to really own and generate the data, and then we own already and continue to build a massive suite of various indexes.

And largely, we've been targeting people that want to go into the self-indexing market. In other words, people that feel price pressure in using the traditional indices because they're priced as a dollar per AUM and a pretty high dollar per AUM charge. And as AUM goes up, there's all kinds of cost-cutting that goes on by some of the competitors in these spaces and so people can't just assume that as their investments go up that their earnings will go up. They really happen to get strategic on how they benchmark to keep those costs in line.

And so, because we have all this proprietary data and a whole indexing business that has calculation engines and analytics and – for the development of benchmarks, we're selling a lot to the self-indexers. And when you think about fixed income primarily, it's very hard to do a bond index because bonds are retired and deceased and there's a churn there that's much faster than an equity market. And so, you need to be replacing those index components and recalculating, rebalancing those indices all the time, and we have all the infrastructure to do that.

So that's hardly why we've targeted that space. And that space is growing and we have a relationship with – most of the major ETF providers in the U.S. right now are in some phase of working with us on some of those kinds of building blocks.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

So on the indexing opportunity and fixed income index opportunity in general, do you think anything's changed in the market structure or how that market is treated to really grow that business, or you think you can do it with what you have today?


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

A

We can do it with what we have today. I mean we, as you know, are not afraid to buy a bolt-on acquisition if we think it will give us a faster scale. We do a buy versus build thought process and if we can buy something that will accelerate our mission, we'll do it. But what we don't really need anything to get to where we're trying to go.

We've got the tools to organically grow that business now. It's partly just because we're a large company with massive distribution around the world. So think of it as – I think of it like television network, like we have the network. If we can by a minor show that's over here and put in our network and just by distributing it, we can make it a hit show simply because we can give it more exposure, we certainly will do that kind of deal. But the network is so big now that we don't really need to do things necessarily to try to expand the network itself.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Okay. Let's get back to the fixed income execution side. So you did a deal recently for a company, TMC. You bought BondPoint. Maybe just step back and just try to articulate for us like how you think about the opportunity there and where, in particular, ICE sees its niche to grow fixed income [indiscernible] (00:08:01)?

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

A

Well, first of all, if you start with the premise that I have, which is it's actually very hard to buy a bond. And the smaller you are, the harder it is. And so, there're sort of two trends there, one that I talked about, which is the ETF managers building fixed income ETFs that make it much easier to buy a bond because it's essentially a listed security. And so you can buy a portfolio of bonds in a mouse click. And the other area where – and that's growing and probably is the fastest-growing part of the ETF market and is really a U.S. phenomenon, but we think it will go global.

And then the second part of that ecosystem is wealth managers, family offices, individuals that are trying to buy small amounts of bonds for their portfolios and they want to actually own the physical paper. That's a hard thing to do.

And so, the business that you alluded to that we just announced we're buying and other business that we have internally is really to automate that process for that part of the market. And it just so happens that if you're a bond dealer, a major bank, it's hard – they're trying to take costs out of their fixed income businesses now and their inventories have obviously been reduced post financial crisis.

But there's a lot of investment in these banks that is going into dealing with the small volume business more automated. As they automate the bond market-making business, they're comfortable doing it in a small scale that goes on through wealth managers, family offices, small hedge funds.

And so these platforms that we operate, the one we own today and the one we're buying, really is in the most automated part of bond trading. The dealers put fix prices out, they're daily resting orders. Somebody can come along with a mouse click and actually buy the bond. So these are not like email requests for quotes and list of bonds and so on and so forth; its true exchange-type businesses that my company is very familiar with.

And we think that because of the pressure on banks particularly to take costs out of their fixed income departments, but they don't want to give up that business because it's lucrative, we're doing a lot of automation


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around that part of the business. And that's what we do well. So, it's kind of a natural entry point for us in fixed income trading.

We also – because we have all this data and information, we can help the parties figure out where their price should be because we can actually show them a value where we think the instruments should trade, which helps lubricate the process of getting somebody to post a resting order for a bond.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

And over time, do you think you can expand from that niche? Do you think a wider fixed income market is [ph] price-wise (11:04) to get into?

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

A

I think the market's going to go to that direction. I don't think the market will – not that we necessarily expand it; parts of the market are going to come to us with that distribution. And then why do I say that, because we're talking already to the major dealers about automating that part of the market. Once that automation is in place and the distribution is in place, then it becomes easy to grow as people get comfortable with it and increasing the large size through that pipe.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Okay.

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

A

And by the way, there are other people that are automating the fixed income market and it's such a big market now. It's not that we see what somebody else is doing and think we can do it better or different. The market is becoming segmented right now as it's going from analog to digital. It's being segmented globally, it's being segmented by bond types, it's being segmented by market models. And so, we found this niche that sort of fits in the box that we do very, very well.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

And when you see – because the story around – in terms of the fixed income market has been around for a while.

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

A

Yeah.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Do you think there are any – still any impediments that you've seen as you try and get folks on to doing more electronic trading?


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Jeffrey C. Sprecher
*Founder, Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.*
A

No. Like I say, I think the ETF business, which has really made it easy for individuals and wealth managers that are dealing with individuals and family offices and those kind of people, it's very easy to buy a basket of bonds now and the easier it is, the more velocity you're going to get.

But I still think there's a big part of the market that wants to own the individual security. They want their own duration. They want to call their own portfolio and manage the stack of duration. And individual wealth managers and hedge funds and others want to do that business themselves. So I see kind of both ends of the market, the really simple ETF part and the ability to do that yourself, create your own portfolio automating quickly.

The vast middle, which is to buy big bundles of bonds and with lots of names and different durations, and so on so forth just lends itself to putting out a request for quote. And if you're trying to construct the portfolio on one big bite, it becomes more of an email transaction. Essentially, I'll email you a list, give you some time to think about what you can put on the list, you email me back, I'll put everybody's emails up there and I'll pick the one I want. Maybe I can combine a couple. That's a pretty kludgy business. It's being automated and we call that electronified right now.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*
Q

Right.

Jeffrey C. Sprecher
*Founder, Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.*
A

But it's got a long way to go. And so, I think we're kind of building from the bottom up and also work with the ETF providers to build that in a form of a security at the same time.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*
Q

Okay. So when we think about those two opportunities – one, fixed income indexing and bond electronification, can you help us with a timeline when you think those will be meaningful businesses from a revenue standpoint at ICE?

Jeffrey C. Sprecher
*Founder, Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.*
A

So we bought BondPoint, a bond platform, at the beginning of the year and, in the first quarter, it grew 50%. So, now, the whole market probably grew – I'm going to guess – maybe 25%, electronic trading markets, but it outperformed the broad growth.

If our strategy is right and we're going to get double-digit growth out of these platforms, then it won't take long before they become material. I mean, they're small now, but we really do see demand to cut costs by the dealers and to automate things and to make life easier in the fixed income market. It's largely U.S.-driven, but just because of the nature of how we've embraced using bonds as an instrument for credit in the U.S. But I do think it's going to be global.


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When I say we priced 2.7 million securities in Liechtenstein, I mean, you pick the country, we probably priced their security. So, eventually, I think this goes global.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

All right. Maybe we just switch gears a little bit to a couple of macro topics here. The energy business and just kind of energy as a whole kind of feels we've seen a couple of big trends, one is U.S. energy independence, China is trying to grow its derivatives markets with a contract. Just given your position as the exchange for Brent, the global benchmark, kind of how do you see those two things ultimately affecting kind of your Brent business over time?

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

A

Yeah. Our Brent business is amazing because it's grown 21 years in a row. It's set a new record. It's on pace to be the 22nd year of growth. So it's not a – and that growth precedes my company's ownership of the index. So, it's not something you want to bet against.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Right.

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

A

Not that I know of.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

It's what we're doing.

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

A

What's interesting about it is Brent's crude oil is – if you haven't heard of or think about it, it's oil that's in the North Sea that comes from the deepwater derricks. And the way it works there is that the oil comes up and is immediately put on ships. It never comes to land.

So Brent is thought of a shipborne oil. It is the marker for oil on a boat somewhere in the world. And then, depending on where the boat is, geographically, it'll be a discount to the Brent Index price.

And what's happened in the U.S., our U.S. marker, which we trade as well, is called West Texas Intermediate and that's oil in a pipe. And it's done well because there's always pipeline problems and delivery issues and storage issues, and all kinds of things around pipeline that create risk arbitrage that drives volume. But increasingly now, as I think we're all aware, that oil is making its way to the Gulf and being put on a ship. And when it gets on that ship, it becomes – the hedging instrument becomes Brent.


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So to give you an example, I think Brent has an $11 premium. Yesterday, it was almost $11 premium to U.S. oil West Texas Intermediate. But when U.S. oil gets to the Gulf and then gets put on a ship, it goes up by almost $11.

And so, China, the new contract that they've listed is a delivery contract. Brent and WTI are source contracts, and China wants to have a contract which is get the oil to China and then I'll pay you at delivery, which is different for the industry. And so, another way to say that, it is Brent oil because you're going to get the oil to China on a ship. Its Brent oil plus a premium for delivery.

And so, it's driving more – that contract drives more Brent volume because people use the Brent Index to hedge the non-delivery component of the oil, if that makes sense. So both the growth of exporting U.S. oil and importing Chinese oil gets a lot of hedging that goes into Brent, just simply because it's seaborne oil.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Okay.

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

A

And probably, we'll lead to the 22nd year of record.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

A record with oil. You're on track.

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

A

Not that I can be forward-looking, but we're halfway through the year.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

I'll model that. Just on EnergyOne, that just surprised me as we talk into the kind of the energy business. Let's talk about the natural gas...

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

A

Yeah.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

...gas business because on a volume basis, it looks like it's been pretty weak there for a long time.

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

A

Yeah.


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Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

But on a revenue basis, it's actually growing, and part of that is your European business. So I'd just love to hear like what you think is driving that.

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

A

It's really interesting because the natural gas business in the United States, we have a benchmark, Henry Hub natural gas. And what is happening when we frac – do fracking – when oil goes up to $80 or whatever, we get more U.S. fracking for oil. As we frack for oil, those wells have associated gas. The people that are drilling those are trying to get the oil. And then they have this gas they have to deal with, and they basically dump it on the market.

And so the overall price of natural gas now in the United States goes down when the price of oil goes up, which is a new phenomenon. And it used to be in my lifetime that the whole energy complex would go up together. But because natural gas is a negative by-product of drilling for oil today and the infrastructure isn't there to put it in pipes and what have you, people just try to get rid of it. They almost will give it away. So you're going to have this inversing trend now with Henry Hub.

But Henry Hub in Louisiana is not where the fracking is. And so we also list on our exchange all these little hubs around the country called basis hubs. And these basis hubs, the volume of trading in those goes way up because there are always local issues even if the guy is going to give the gas away, somebody wants to – locally wants to speculate or hedge around that phenomenon. And so the volume of Henry Hub benchmark trading is going down, but the trading in the peripheral areas that are around the fracking areas has kind of gone up. And it's kind of when you look at it that way, it's logical what we're really doing is changing the ecosystem for natural gas in the U.S. and the trading is kind of being dragged along with it.

Separately, Europe, natural gas is – even though we're exporting natural gas from the U.S., it's not in enough quantity to yet impact Europe. And so the natural gas business in Europe is way up, the trading is way up. So, this is kind of a regional phenomenon that makes its way through to our trading numbers. All that's a lot of noise. Broadly speaking, our energy complex is doing very well.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Just on the nat gas point in Europe and Asia, the dream has always been the global market and that should drive – that should be good for you given the assets you've got globally. Where are we in that if that's the realistic?

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

A

It is in the sense that when you're in the energy business and you're in Europe and your prices are real high and then you're reading about how in the U.S. people are trying to give these stuff away, there's enough entrepreneurs in the world, business people in the world, let's say, if I could take that free gas and get it over to this place where they're paying a fortune, I'll make a fortune. And so there's a lot of infrastructure work going on and, of course, it involves permitting and geology and lots of long lead time issues, but the trend is there. And as we've seen oil this year rise again, the animal spirits are back in the market and people trying to figure out how can I take that thing that I can damn near get for free and I sell it for a fortune and I got to find a way to do that. So there are a lot of people working on it. So I wouldn't rule out something happening quickly.


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Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Last one on energy. Gasoil is another one that seems to be just growing nicely also. Can you talk about some of the trends you're seeing there that are driving growth?

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

A

Yeah. The gas oil contract, which is European heating oil basically, is a proxy for all middle distillate oil. So it's a proxy for aviation fuel, it's a proxy for transportation diesel fuels, so on and so forth. It's doing very well because the economies in Europe are doing well. And there's always just a lot more trucking, so a lot more manufacturing, things that are – that depend on milled distillates to – and so it's kind of a GDP phenomenon, the European nature, although this contract is used to hedge around the world. So as we have global growth, you just expect that that makes its way into the energy ecosystem and then into Gasoil.

Another way to think about it is that none of us in the room will ever consume a barrel of oil. All of us in the room will consume products that come out of a barrel of oil. And this Gasoil contract is more closely related to those products than the actual barrel of oil. And so it just continues to grow because people are hedging all kinds of industrial uses of petroleum.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Switching gears, LIBOR, just curious – for those who don't know, you run the administration of LIBOR at ICE.

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

A

Yes. And we own LIBOR. We bought the index.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Okay. As there are proposals to effectively phase out LIBOR, how does that affect your business and just more broadly how do you think of the index of ICE?

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

A

We don't think – regardless of there may be new indices that come into play in the credit space, we don't think LIBOR will ever go away. It's just too fundamentally used. We're doing interesting things. So LIBOR – we took over LIBOR after the financial crisis and it was a discredited index, if you will, because it's based on estimates that banks submit estimates to us, to our administrator, and then we throw out the high and the low and average the rest.

And so a couple of years ago, we demanded, in addition to the index, people give us all the underlying data that they use and the rationale that they use to develop their estimate. And so we've been gathering all kinds of short-dated interest rate data from a broad group of banking participants, financial market participants for a couple of years.


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So we published a white paper where we showed all the LIBOR – and LIBOR as a whole, there's lots of IBORs, if you will; there are different currencies and different tenors, not one thing. And so we published for the first time all of the estimates that people gave us and then all the data that we gathered. And what you see is for the name LIBOR indices that we all think about, dollar, one-month, three-month LIBOR, for example, these were highly correlated. And so we published a white paper that laid out the road map for, we're going to inverse what we do. We're going to publish the actual – LIBOR is going to become the actual data. We still are going to get the estimates and those can be used as a backup in case there was a day where there wasn't any trading or something.

That's the opposite of the way it's done today. Today, it's an amalgamation of the estimates with the data there for us to draw conclusions in case we don't agree with the estimates. So it's going to become transaction-based, which is really what the market wants. And the LIBOR administrator hopes to roll that out during the year here and there's broad interest in having that happen. And so I think LIBOR gets stronger and stronger and stronger. It's already better now. It would be very hard to manipulate LIBOR today because of the infrastructure that's over top of it. But people will feel more comfortable when they really see it to be just transaction-based.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*
Q

And correct me if I'm wrong here, but the banks are obligated to at least submit estimates to LIBOR, I think, till 2021 or something like that.

Jeffrey C. Sprecher
*Founder, Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.*
A

Yes.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*
Q

Maybe just talk about what it exactly means after 2021...

Jeffrey C. Sprecher
*Founder, Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.*
A

Right.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*
Q

...what's your plan for initial...?

Jeffrey C. Sprecher
*Founder, Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.*
A

Right. The regulator has required that banks submit data to us, and they've also required that the banks submit data to the regulators because regulators are working on alternative rates. So we're all fishing in the same pool. And what we're doing is, essentially, gathering all the transaction data, figuring out where the transaction data exists, we're in the data business. And how we can go ahead and gather that data ourselves and use all the correlations that everybody has been giving us for the last couple of years, along with the industry, we're not doing this alone. There's these big working groups that are helping advice on LIBOR and moving that thing so that, past this regulatory deadline, that contract can keep going without regulatory involvement.


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Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

MiFID II, so I guess we're a few months in now. What are you seeing from a customer behavior post implementation? Any changes in market structure?

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

A

Well, it's obviously a big burden, particularly on a lot of people in the room here, and it's driven a lot of growth in data sales for us. I mentioned we price all these instruments every day. People want to know what our views are on those prices because they've got obligations under MiFID to show people that they got best execution. They have obligations under MiFID to think about the liquidity in a market when they're valuing something, in other words, don't overvalue a position in an illiquid market.

And so those kinds of tools that we've developed for MiFID are – they're selling and they're not only selling in Europe, but once major firms change their workflow in Europe, it's being exported to Asia and to the U.S. and, in fact, many – we have a lot of growth off of very small base, however, in Asia, like most companies, and those people are going right to those tools. They're never going to put the old workflow into place.

So it's been very, very positive for us. I think it's a terrible regulation. I've been very open for anybody that listens to me which is not a lot of people, certainly no one in government, but that is not a helpful piece of regulation. I think it hurt more than helped and I don't think the cost benefit is there, but it is driving a lot of sales for us. My own view is that if our customers aren't doing well, we won't do well, and I know our customers are having to take on a lot more costs, which bothers me. So, I hope you all do well.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Just a quick point. If you have questions, there should be a piece of paper next to you, you can write them down. It will get passed on to me here. Switching gears, you have a very interesting asset, MERS, which is an asset in the mortgage market. You've talked about the digital mortgage over time. So maybe just give a little more detail in terms of that asset, where you see the mortgage market growing over time and how you can facilitate that?

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

A

Yeah. So MERS stands for the Mortgage Electronic Registry Service, so not a great name, a business that we acquired, was a consortium of banks and people in the mortgage industry. And the goal of MERS is to digitize the mortgage process. When we bought the company, we bought a majority stake in it and with an agreement that we would replace the infrastructure. And we've rolled out that new infrastructure, and it's running actually in parallel with the legacy infrastructure.

And people can now hook directly to the new infrastructure. And there's a process going on by which probably through the end of the third quarter, maybe into the fourth quarter, we're going to try to transition everybody off the legacy system, shut it down and be on the new system. Once we're on the new system, it's much more flexible for the mortgage industry.

And so, there are sort of two categories of customers that we have around this that are working with us. One are large banks that are trying to take cost out of their mortgage business, and they want to automate more of it and go directly to an electronic note. MERS is the registry of record for electronic notes. Fannie and Freddie only


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accept electronic notes for mortgages if they come through the MERS system and they're on the MERS infrastructure, MERS database schema.

So anyway, we've got large banks trying to reduce costs that are working with us, and then you have a lot of small banks, regional banks, people that do occasional mortgages for clients. They tend to be conforming loans. They go to Fannie and Freddie at the end. And we're working with that group to help them go right to these digital mortgages. They're not going it so much for cost efficiency. They just don't necessarily have the infrastructure to do lots of mortgages. And if we can give them the tools to be electronic for the volumes that they do, they're going to go right to it.

So we rolled out sort of the first product since – other than building the MERS backbone, we've rolled out a new product and a joint venture which is a Digital Vault, where we will store the electronic mortgage for you. The major banks have their own databases and data centers where they store all their digital stuff. But we are making it easy for small banks to go right to a digital mortgage and we'll store it for them and transmitted to Fannie or Freddie and be the place of reference.

So there's a lot – now that the new platform is coming in, there's a lot of work going on around the digital mortgage space. So we think it will be a grower simply because it's a business going from analog to digital, and we think that will overwhelm any trends in the mortgage space about refinancing or origination or what have you. Right now, it's almost all analog and there's a real demand to go digital.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Maybe sticking to the digital theme, we're asking this question to everyone at the SEC this week. If you look out five years from now, what do you think would be the single biggest disruptive force that threatens your business?

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

A

If you're asking it to everybody, you could have given it to me in advance, then I would have thought a lot about it.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Had to make it out for you.

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

A

What's amazing to me is it's not a technology, per se, it is the fact that our business is evolving, and I mean collectively everybody in this room, our businesses are evolving faster than the regulators are evolving. And we have this disconnect where Europe is introducing MiFID and its impacting. So their pendulum is swinging one way. And the current U.S. administration is trying to dismantle some of the stuff, so the pendulum swing in the other way. And increasingly, we all operate in a global environment. And the policies of various governments over – and everybody thinks financial services need to be governed because of the past financial crisis.

And so the mishmash of stuff that we're dealing with, and I think it's everybody in the room, of trying to be globally compliant, the good citizens, manage your costs but also do business is just amazingly confusing. It's provided opportunities for my company, no question, but I think we just can't predict the relationships between companies and their own regulators and maybe, more importantly, between global regulators. It's very, very – they talk a lot,


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they meet a lot, very hard to predict whether or not they're all going to continue to work together for the better good or whether it's going to be – I only worry about my little area and I don't care about you and I don't care about global business.

And the backdrop to that is a whole discussion about globalization and did it lift everybody. And so, I barely spent any time in my company years ago when we started thinking about regulators. Today, we just have an endless number of meetings with regulators, politicians, people that are in various parts of global – of bureaucratic oversight. It's a huge part of the entire management team in my company, and I'm sure for many of you as well, and I can't predict where it goes.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Okay. Well, good answer for no prep.

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

A

I could have said the blockchain, but I figured everybody said that.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

So it doesn't look like I'm going to get the questions here. So I'll just open it up to audience. If you have a question, just raise your hand and we'll take questions. Well, while they get warmed up, one more actually on blockchain and maybe cryptocurrencies. So you're kind of involved in the space, have an investment in one of the exchanges, I think there's some data feeds around crypto. So maybe just more broadly, what's the strategy there? Could you be a more meaningful exchange?

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

A

Yeah. So you mentioned our data feed, which is interesting, because we aggregate up the data from a lot of the cryptocurrency exchanges. And the demand for that product by institutions like that you guys all represent, it's unbelievable. So you can't discount what's going on. There are too many people in the world that are investing in this area, that are spending time in this area, that are discovering it now maybe for the first time. And it just seems like the amount of spend going into the blockchain and into cryptocurrencies more generally is at an all-time high.

I interviewed a guy who's an adjunct professor at MIT, who had written a book about it. And I said to him, I read a paper that had there been 88,000 proofs of concept and almost all of them have failed. And why do we have so many concept proofs and yet they failed and there's still excitement about it? And it is that kind of notion of we're all looking to the future and for the one that's going to be different.

So we don't discount it, we've done a lot of work on it, we've done a lot of use cases on it. So far for the kind of things that we do, we have not found a use case that is better, faster or cheaper than what we're doing today. But that's a moment in time. The blockchain is broadly isn't that scalable. The infrastructure to get wide adoption to displace current systems would be hard. So there are its own limitations on any proof-of-concept. But all of those, you can imagine, could be overcome with investment and time. So we pay attention to it and continue to work on it and have a lot of internal initiatives going on.


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Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

A broad question here in terms of maybe the pricing trends you're seeing in your business, I'm assuming it's really more around the data side.

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

A

Yeah. That's actually two questions, what are the trends we're seeing and what are we doing, it's two different things. The trends I'm seeing are a lot of my peers acquiring data businesses and immediately jacking up the prices and actually being rewarded for that by investors. We haven't wanted to go into that trend. We want to grow our business by not jacking up prices, grow our top-line revenue by not jacking up our prices, keep prices low but really broaden distribution and play – we're playing a longer-term game and there's enough organic growth in the space that we don't need to grow revenues by messing with prices.

And I mean I've seen people buy businesses and literally just the next day put double-digit price increases on these businesses. They have pricing power. They decide to use it. They are not shy about advertising it and the share price does well as a result of it. But I just – maybe because I'm a Founder and I'm a long-term investor as a result of my own shareholdings, I want to build a broad deep business in data quickly, and the way to do that is not to go in and jack everybody's fees up. Those are the two trends. Maybe another way to say it is we're not being trendsetters.

And by the way, a lot of you, when you meet with us and you say to us, well, why don't you just pull the lever a little bit? And it's hard to deny, it's hard to – there are places where we have pricing power. We probably could pull the lever a little bit, but we're trying to get a kind of a mid to high single-digit growth rate with a lot of that being organic and not price increases. And then because we're taking costs out of businesses that we buy, we're very, very efficient. I can get double-digit bottom line growth by doing that and raise the operating margin. And so that's kind of been the strategy that we've stuck to.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

So maybe just on that point in terms of what growth accelerating in the data business...

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

A

Yeah.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

...so again, the first quarter was about 5%...

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

A

Yeah.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q


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...and somewhat shy of the longer-term target.

Jeffrey C. Sprecher
*Founder, Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.*
A

Yeah.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*
Q

So maybe what in the near to intermediate term moves that up to just the way you want it to be?

Jeffrey C. Sprecher
*Founder, Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.*
A

It is going up. We bought – the bulk of our data business that we bought was Interactive Data, which was a historic 3% grower and we bought it with the thesis that we can raise its growth rate and we have been. Our ASV that we put out in the last quarter, which is basically our forward look, is at 6.5%. That's up from 6%, which is up from 5%. So, we see the growth rate is accelerating, which is why we haven't done anything like change pricing or messed with the program.

And that accelerating growth rate is coming from just packaging things together and getting a sales force that can go out to large accounts and sell multiple data sources, whereas a lot of these businesses before we put them together were all going off on their own trying to sell smaller packets individually. We've been able to bundle things and cross-sell, and that's been working to really strategically change the – and accelerate the growth. And so we just want to keep doing that and keep pricing reasonable so that we just become the reference data of source for the industry. Kind of an Uber strategy, only we actually want to make money, but let's get out there and really disseminate broadly.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*
Q

Couple of questions on acquisitions here. Maybe just before we dig in some of the actual questions, just remind us broadly in terms of how you think about acquisitions, because you've done a quite a variety of them, maybe a little bit longer term [indiscernible] (00:44:35).

Jeffrey C. Sprecher
*Founder, Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.*
A

Yeah. So my company, it turns out, and it's not me, it's my colleagues are very, very good at integrating companies. We really have found a skill set at buying some businesses and getting them into our ecosystem. And part of it is we only buy businesses where there's a big technology underpinning, an ASP model. We don't buy consultancy-type businesses.

We wouldn't know what to do with those and we would be terrible at it. But if there's a technology underpinning, we're really, really good at getting things onto our network, getting into our data center, putting our cyber overlay, getting into our accounting package and figuring out how to manage that, and we've done that because we've done enough of them that we've kind of figured out the formula. So number one is we want scalable businesses with the technology underpinning.

Secondly, we are very disciplined about we want to buy businesses that are higher than our cost of capital, and so we do a lot of modeling and we really want to have double-digit bottom line growth, EPS growth. So we don't


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buy any business that won't fit in the formula that we can see. And we also model our own company and we've been doing, like most companies, a lot of share buybacks. So we also look at the opportunity costs of not being able to buy back our own shares versus buying somebody else's shares.

And so when you run all that through, it turns out, and we've done lots of deals, that we're really good at two things, buying a small company and putting it on our network and making it grow faster because we can give it more distribution. So buying a single television show and putting it on this broad network globally and suddenly it becomes a hit show. And that's kind of – and at the same time, we do a buy versus build analysis, which is could we launch our own show or should we buy this other show? So we buy small companies that look like they can be growthy and they can bolt on to our network.

We also do the other end of the barbell. We buy big companies that have kind of too much infrastructure. They're out of favor, they've lost their way a little bit, and we think we can go in and pull out bits of them and curate their business and sell off the parts that don't work, keep the parts that do work. So we buy small growing companies and large ex-growth companies. And those will give you the ROIC that we need.

What we don't tend to buy is larger growthy companies at high valuations. And every time one of those comes to market, somehow our name gets attached that we're going to buy it, and I don't know why, because we've never ever bought one, ever. And because it's just mathematically, they're great companies that we always get attached – our name gets attached to; great companies, great entrepreneurs, people we like, people we'd love to work with, love to own, but it's very, very hard to buy a growing company that's at a high P/E that already has a lot of its terminal value taken out of the price.

**Christian Bolu**
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

So because I have the question, I would ask it, like where does LSE fit into that? Is it in the...?

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

A

Well...

**Christian Bolu**
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

...mid fixing or its more?

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

A

It's doing really well right now. It's got one of the highest P/Es in our space. It raised its data prices and it's being rewarded for it and it's a great company. And it's great. And so what happens is people ask me, what do you think of it? And I give them my honest answer. It's a great franchise. It's great company. Would you like to own it? Of course. You guys should own it. It's a great company.

But that doesn't mean we're going to buy it, because that's a different – that's a – we would have to pay its terminal value and we would have to figure out if we put it on our network, would it grow it faster. And maybe, I'm not giving the answer to that, but you'd have to figure out that, or has it somehow lost its way and somehow we could do something different with it that the management team there is not doing itself. Maybe but the things in


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the middle are very, very hard to buy because mathematically they don't give you a high return on invested capital.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Just on that point, I mean, do you broadly think large-scale, cross-border type of deals in the space are pretty much behind us at this point?

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

A

I don't. I think I gave you that answer that the most complicating thing that we're all dealing with is this regulatory infrastructure. And the thing that makes a cross-border deal hard is that unpredictable regulatory infrastructure. But that doesn't mean you can't work something through that system. We all are going to work every day trying to maximize our businesses under these regulatory infrastructures. Just it's harder, it's not easy, but it doesn't mean it's impossible. It just means you have to pay attention to it.

A lot of the deals that failed cross-border deals that were failed – we're almost – I mean it's easy to look back on them. But it's almost predictable that some of the cross-border politics just were very difficult and management teams that didn't seem to have squared those off before they announce the deal, or took a risk and it didn't work out. But I'm not trying to throw anybody under the bus. But I think they're imminently doable, hard and need a lot of attention more so than shareholders. It's going to have to work for shareholders. But more so than shareholders, it's got to work for the regulators and the politicians.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Q

Okay. I'll open it up for more questions, if we have any. Okay. It seems like a quiet audience today.

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

A

Great.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

We'll close the day. Thank you very much, Jeff.

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

All right. Thank you all for your questions.

Christian Bolu
*Analyst, Sanford C. Bernstein & Co. LLC*

Thank you.

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


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Thank you.

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