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# Intercontinental Exchange, Inc. (ICE)

Sandler O'Neill Global Exchange and Brokerage Conference


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# CORPORATE PARTICIPANTS

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

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

# MANAGEMENT DISCUSSION SECTION

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

Okay. Certainly, we're going to wrap up with a U.S. focus on the two largest publicly traded exchanges in the U.S. Next is ICE, the Intercontinental Exchange. Chairman and CEO, Jeff Sprecher has led his company – founded the company and has certainly led it since its IPO late in 2005. I think most regard him as a visionary in the industry and he certainly has made some moves over the recent past three to five years and have also led the industry or certainly awoken the industry to other areas of focus of the exchanges. We'll leave it at that.

So it's my pleasure to welcome, Jeff Sprecher, the Chairman and CEO of ICE.

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

Thank you, Rich. Nice to be here, everybody. Thanks for coming to hear us.

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

It's been many years.

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

Yes.

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

So I guess...

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

Every year, I try not to come and Rich probably wouldn't be here. It's embarrassing and it's like a pop quiz.


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

Whatever it takes to keep you coming.

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

Thank you.

# QUESTION AND ANSWER SECTION

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

Q

Every year brings changes; this year a couple of changes. You had a change of leadership at the NYSE. The first female President and I know Tom was a trusted lieutenant of yours, also Kelly Loeffler, I know how important she was to the organization. So I'm sure that's a change. So I guess talk – if you can, Jeff, from your perspective, talk about the personnel changes as well as maybe we can roll into the NYSE and what's going on there with that leadership change as well.

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

A

Sure. Well, I'm not sure any of us have a good sense of self. But I know one thing about myself is that I'm not a good manager and I think that I can attribute the success that I had personally in life both in business and other things to the fact that I know what I'm not good at and I'm not a good manager. And so, consequently, I look for people that are self-managers, that have passion for business, that are self-starters and try to surround the company with those kinds of people.

And we put Stacey Cunningham in the job of the new Head of the New York Stock Exchange and Stacey was interviewed. It was a quite a press event because she is a female. And the quoted statement that came out of her was I love this company. And I was like, yes, that – right there that's all – like I never knew where Stacey went to school. I never – I didn't know until I read the press that she had left business for a while and gone to culinary school, and then come back into business. I honestly didn't know anything about her resume or CV.

She was a salesperson, an equity salesperson. And Tom Farley and I could just see that she had a lot of passion and cared deeply about the company and we decided a few years ago to test her to see how she performed and we gave her some operating responsibilities in a very bad part of the business to see if she could fix it and she was great. And so, we made her Chief Operating Officer and set her up to ultimately take over the company.

So it was an organic natural transition, but the fact that her view was that she loved the company really validated that Tom and I had been on the right path. And so my company has very much been in a mode the last few years of taking the next group of leaders and putting them in challenging positions to see how they do to get them ready.

Lynn Martin is a new person that runs our data business, which is an important initiative that I think you may be alluding to in your introduction. Ben Jackson, we've recently made President. You can see us giving younger


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people real, real challenging jobs to see how they do, and to season them as the company gets bigger and the scale gets bigger. I'm really pleased with – as a non-manager, I'm really pleased with the people we have. You'll get to meet many of them if you haven't already and they're great.

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

Q

And I think, as a non-manager, you sort of prided yourself though as a sort of a very vertical, lean, running a big company like a small company?

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

A

Right, that's the only way the non-manager can – I call you and others all the time, when somebody comes into my office and says I really like to talk to you about my career. I'm like, boy, my eyes glaze over. I'm like I don't know about my career. I don't know where the company is going to be like – our goal is to keep evolving ourselves and being open to change, and so if I lay out your road map, it's kind of suggesting that you're not open to change or that you're not going to be able to evolve.

And so I look for people that say, I like change, I embrace change, there's opportunity in change, opportunity for self-growth, opportunity for our investors, and we need – we enjoy that aspect of it. You surround yourself with people like that. And the only thing I can do is as a company now that has my scale is to create a culture and make sure the culture gets protected because there are many people that work for us that I'll never meet and so. But I want them to feel like they know me through the culture that we have.

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

Q

So, speaking of – I guess this isn't a new change, but change certainly over the 15 years that we've been dealing is the focus of ICE on the data business. Very interesting, I had the LSE right prior to you. I don't know how that got set up, but it was set up like that. But it was very interesting to see, the index business, you talked a lot about it on your last call, not just the last call and certainly the parallels to the LSE as well, they have a strong index business. But I guess the question is, where do you see overall, is this as big an opportunity? How big of an opportunity, we don't really know the index revenues I'd say. But you talked about self- indexing, the BAML fixed income indices, so we think it feels like you have something there. We're just trying to figure out more.

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

A

Yeah, in looking at that business and the move towards passive investing and even active investing, benchmarking against indexes, you have two choices. You can try to acquire or build a brand name index or what we've been doing. And we've done some of that, but what we've really been doing is working with people that want to self-index, and there was a public filing yesterday, it wasn't a press release that, that mentioned that BlackRock was moving four of their funds to self-indexing (sic) [ICE Data Indices] that we're providing the indexing for.

We're working with most of the major ETF providers, most of the major asset managers that are really interested in this space. They want to first of all differentiate their product from others and secondly they want to control their costs as AUM goes up, as most of you in the room will now, it's a very competitive space right now and controlling costs of investing is key and by creating your own index that you can control, you can also and to a certain degree control your cost.


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So what have we done? When we moved into the data business, we hired a ton of people, maybe as many as 1,000 to create a reference library of 10 million securities where we have the reference data. In other words, what is the security, what is the legal name, what is the, in the fixed income space, what is the maturity. Where is the domicile, and so on and so forth. And so we have a database, if you will, of almost every security in the world that people can come and search and work with us to try to develop interesting bespoke indexes and then we price 2.7 million securities every day. So we have a whole historical file and future file of data and information that we can provide people and then we can actually do the index calculation. If somebody tells us the criteria they are interested in, we can do the searches and construct the indices and we can do the NAVs on ETFs. And so we have and been building basically a soup to nuts platform. And ultimately, we think that is a very sustainable part of the market because we really do believe that that's where the growth is going to be.

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

Q

So you're growing that index business. We still haven't quantified it yet.

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

A

Right. Yeah, there's a lot of demand for that and we're taking under advisement, so.

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

Q

So we understand it is growing instead of...

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

A

Yes, yes, yes. I think it's driving, that whole trend is what's driving the data consumption, that and the fact that there's more regulatory scrutiny. So people have to have more information for compliance and what have you. But on top of those increasing compliance costs, people are trying to decrease their transaction costs and so the two together are driving people to acquire more data.

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

Q

Another topic I want to bring and this is as Chris Concannon, it's a movie we saw before, it's a movie that you and I have certainly seen before, but the continued automation, electronification of markets in general, let's say, so you just purchased another platform, your second in the fixed income area, and you talked a lot about it prior to being here. We know these platforms are central order books versus the RFQ, at least your view of the RFQ market now. I guess the question – could you briefly go through how you're looking at that market and you've talked about it before, so I don't want to get too much, but also the way you see this – is there still a big opportunity for RFQ models versus how big is Europe opportunity with an all-to-all market?

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

A

Yeah, so continuing on the theme that you just asked me about, we have 10 million securities where we have reference information. And if you think about debt around the world, a huge portion of that is government debt and various instruments, various bonds and municipal bonds and sovereign bonds. And then we bought the bond


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evaluation business from S&P a couple of years ago – or maybe a year ago, we did a deal with them. We took their bond evaluation. We do the evaluation. We give them back the output which they use for ratings.

So we've been building kind of this infrastructure for fixed income valuation. The platform that we're buying now is a dealer to wealth manager platform. That space, if you think about wealth managers broadly and it's largely U.S. based although it has a European component. If you think about wealth managers, they're buying a lot of municipal bonds for individuals that they're helping to manage and family offices that they're working with.

And so it's kind of a natural add-on, if you will, to what we've already been building in the municipal fixed income space. And the dealers who like that business because they mark up those bonds and sell them to individuals and people buying small volume, onesies, twosies, threesies as individuals, the dealers have been willing to leave resting orders in a central limit order book so that a wealth manager can literally look at a central limit order book and click to buy those bonds. And the dealers have been automating that because its lucrative business that is easy for them ultimately to try to automate and they're willing to – because its small size, they're willing to leave resting orders.

So, for us as an exchange operator, it's just the kind of business that we're used to, running broadly distributed order books and the goal for us is to – we believe the size will increase because we've seen that in the RFQ market. It started small and then, over time, the individual trade size increased. And secondly, we think that the central limit order book automation will be well liked and will cater to the kind of distribution that we have in our other exchanges. So I think this is an area that we project will grow quickly and grow faster than the rest of the market, knock on wood.

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

Q

And do you think over, say, three to five years that the order book model, how will that compare to the RFQ?

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

A

Well, a lot of the people in the room here probably cover the banks and one of the main questions on every earnings call with a bank is, how did your FICC group do? Banks are under pressure and are trying to make more money in their trading, and so they're willing to automate parts of that business, but there's also parts of the business that they want to keep opaque because it's the secret sauce that they have. They want people to come to them directly. They want to work well with customer relationships.

So it's hard to know how big the RFQ market can continue to grow until it sort of gets to a point that a bank says I really don't want to be publicly broadcasting pricing or what have you. I'd really like people to come to me directly. And so, we're on the low end; we're starting on the lower end, and I think that will grow – the central limit order book will grow. How high it can grow, I don't know. I don't think 100% of the market goes electronic, if you will. I do think the workflow for even the bespoke part of contacted dealer market, there are going to be parts that need to be automated, the back end, the risk management, the pricing algorithms, the settlement of those trades. And so we are very focused on that part of the market as well.

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

Q

We're certainly, as you made two acquisitions, so I think people have certainly got their eyes focused on the fixed income markets electronifying.


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

Yes, it's a massive analog to digital conversion that's in its really early days. Right now, if you think about request for quote, which is done well and the people that are in that business have done well and are continuing to grow, but it's basically send an e-mail out to people and say here's what I'd like to buy, and then wait and e-mails come back or instant messages, here's my prices. I mean it's pretty – we call it electronic trading, but I mean, to me, its e-mail. So it's got a lot of room to grow, there's a lot of opportunity for everybody in this space to evolve that model.

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

So this analog to digital conversion, that's what gets me juiced, energized. I mean that's what the conference is a lot about. I think that gets me juiced as well, and I think that's what you've gone through, where everything started.

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

Yeah, it's how we created a lot of value by being in the middle of an analog to digital conversion.

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

So I know you love all your children, but one child is MERS and that appears to be right up that – like who knows what the actual timeline is, but that appears as ripe for digital conversion over some period of time.

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

Yes, the MERS, if you haven't seen that company, it's the Mortgage Electronic Registration – Registry Service (sic) [Mortgage Electronic Registration Systems] It's the official registrar of mortgages. And we have a registration service for e-notes, electronic notes attached to mortgages. That market is probably, the electronic mortgage note market is probably one-half of 1% of U.S. residential mortgages. We think that the market wants to move to a completely digital mortgage. In other words, a couple buying a home would be in their kitchen, on their computer, would get all of the documents, would be able to use digital signatures, and that does exist by some frontend. But once that electronic record is created, we think that it could stay electronic through its entire cycle.

So, as that loan goes into a bank or lender, gets syndicated, there's warehouse lenders along the way that don't make it syndicated, may go to Fannie or Freddie. There's no need for that to be converted to paper. And the note itself which is the central governing document, we think can exist in digital form. There'd be a record, it would be in vaults, it would have redundancy, and MERS is essentially the official record, if you will, that the industry has established for where you hold a digital note. It's the golden record, if you will. It's the DTCC of digital mortgage.

We think it had aging infrastructure. It got caught up in the financial crisis. There was a lot of litigation around the individual homeowners that were trying to hold onto their homes that tied up MERS. But now that whole bubble is behind us and MERS is really set to grow and the electronic mortgage space is set to grow. Again, banks are under pressure. The big banks are under pressure to take costs out. Handling boxes and boxes of mortgages is a massive undertaking for many of these companies. And there's a lot of incumbents and there's a lot of things that have to get disintermediated in order to go from analog to digital. But the trend is there. It's one of the largest asset classes that we see that's still analog and we want to be right at the middle of it.


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

Q

Is there some indication that you'll hit that? And you talked about documents, files that are still physically filed [indiscernible] (00:20:00) well, is there any part of the process that if that went automated or showed signs of going automated, that the whole – the process would start to, the dominos would start to fall?

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

A

Yeah, there are a couple of major market participants that are working on how can I digitize my whole infrastructure. The interesting – the thing that you say, well, why wouldn't it just happen? Everything else in the world is going digital. If you make a restaurant reservation, order a car, get on an airplane, book a hotel digitally, why wouldn't this go digital? There's a float in there between when a mortgage locks and when it funds, and so there's money made, if you will, on the latency of the paperwork.

And so the tension, if you will, is the cost savings in really streamlining the mortgage process versus the time collapse that funding would happen. And that's what's sort of propped up the analog business for a while. But you do see people coming into the space that really want to automate it. There are new entrants in the mortgage space that are doing really well that have an app that are advertising, that can quickly give you approvals, and so on and so forth. And those kinds of companies then run into a brick wall where they're like, okay, now I have to print this out in paper and start mailing it around, and those kinds of companies have said, I'm already a first mover in this digital space, I'd like to get it all the way through quickly. And they're the disruptors that will probably ultimately force this thing from analog to digital.

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

Q

So, we just got a couple more minutes. One thing, we know your energy – I could go through the energy numbers, the energy complex is doing fine, whatever, we could go through and differentiate the CME and all that.

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

A

I think we're both doing well. You don't need to differentiate.

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

Q

Exactly. So I guess one thing I did want to get to is regulation. I guess you've got – your vision of a no rebate world is sort of, I'm not saying it's come into play, certainly, has taken a step of possibility now when you have a test pilot that has a no rebate bucket.

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

A

Right.

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

Q

So I guess I'm trying to relate your vision of markets because that really plays to the understanding of markets – futures markets which don't have the rebates, et cetera, coming into the equities world.


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

A

Right.

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

Q

So I guess the question is, are our markets, say, the cash equity, operating as efficiently, would – do you think there's a risk if we went to a non-rebate, which you're very accustomed to, if that was taken seriously?

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

A

So, first of all, I think the market – the U.S. equity market is doing – from an electronification standpoint and efficiency standpoint is doing great. We think it could do better, but that isn't to say it's bad. We think you could do more to make it better. My job and I think all of our jobs is to look for what is the next best thing that we can contribute to life, not the status quo. So it's not bad, it's not broken.

And when you hear naysayers talking about this, I don't think they know what they're talking about. You can sit in your home right now, click a button, and buy a stock in a way that you could never do 10 years ago. And companies like Robinhood with 5 million individual accounts opening in one year for free stock trading, it's a phenomenal thing. So take that as a base. I don't like the rebates. And we've been open about that. I don't think it's a good thing.

I don't like the pilot program that the SEC has come out with, and we are opposing it, which sounds like two different – you're talking out both sides of your mouth, but the reality is, it's called a pilot. The pilot's going to have 3,000 listed companies out of 4,300. I mean it's not a pilot; that is a change to the U.S. market structure. You can call it a pilot. To me, pilots tend to be small. We're going to take 3,000 companies and we're going to put them in different buckets. So you all, as you like to look at various exchanges, let's say, the exchanges are going to be trading in different buckets, trading different ways. I get compared to how my peers do. I don't know how that is going to work when we're all in different buckets.

There's a whole bunch of ETFs and passive investment vehicles that amalgamate up various names that are going to be all trading slightly differently. It seems like a big experiment that we could do a better job at this. The second thing is this only applies to the trading that's done on U.S. Securities Exchanges. It doesn't apply to dark pools, it doesn't apply to, it's a block trades, it doesn't apply to anything else. So why are we going to try some big bang thing in the lit markets and not think about our wholesale chains across all markets? We have these rebates in there, and the rebates are, they are – the whole thing is complicated.

But at the end of the day, it results in the price of a security. The dark pools have an extra digit, an extra decimal point that the exchanges don't have and we're not allowed to have. Why are we not allowed to have a decimal place that everyone else uses? And the rebates essentially by mathematics can give fractional pricing, if you will, can add a decimal place or two or three by the way those get constructed. So just removing them and not dealing with the other parts of the market seems like a terrible experiment.

Our data shows that it's going to cost people more and I don't know why people won't want to do a real cost benefit analysis of this thing before we go and put the bulk of the U.S. equity market under this structure. So that's the complaint I have. Directionally, I think it's a good thing. I think it's great that we're having this conversation. I hope that we could come up with a better answer than what's being proposed though.


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

Q

I think some of your questions are – it's hard to answer whether a 3,043 is the actual...

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

A

Is that a pilot? I'd call the 1,300 that aren't in it a pilot. The rest of it is change in the market structure.

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

Q

Chairman Clayton was here yesterday, I refrained from asking that specific push back on the pilot, but...

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

A

I think he would probably agree with me that the markets are doing well and we've made them better and stronger as a result of past experiences.

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

Q

We did ask what his opinion, are the markets working and there was no question there. Very last question, again, this is sort of going back to the very beginning of our talk here. You've had some people turnover. It's certainly a different company now then – again, I might debate with you whether you're a manager, how good a visionary.

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

A

Thank you, you're very kind to me.

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

Q

People in this room I don't think would debate that at all. The question is, what gets you energized, what are your priorities? I think it probably revolves around growth at ICE, but what are you most focused on and accomplishing now that you have this exchange it's probably much bigger than what you ever dreamed of in the beginning?

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

A

Yeah, I – it's like – I have no children, and so this thing is a – my wife and I and my wife works with me and it is kind of a child. So we want to set it up for great success and I am not – the trends we talked about, macro trends are the things that get me interested. I think companies need to evolve. And I think that the last page of every one of our earnings reports, every quarter, I show the growth in our earnings per share and the metric that I use is, are we growing EPS, are we growing value for our investors. And the only way that that we can do that is to not stagnate and to continue to innovate and move forward. And so I'm always looking at the next thing, and as are my colleagues.

We've created a culture of where do we need to position the company for the next leg of growth and some of the things you asked about, MERS, electronic trading of fixed income, those kinds of things are exactly what get me


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energized, what get us energized, and it's not about – right now, we're in a great position where there's great U.S. growth and companies that are very levered in the U.S. are doing well. There's great global growth generally. Companies like mine that are more global are doing well, but when that runs out inevitably, we go through cycles. I want to still be able to go through that.

So what are the trends, the analog to digital conversion kinds of things that are going on in a world, where even if there's an economic downturn that the power of the model will grow through that. And I know, I mean, that's all I can do as a manager. I've got a long [indiscernible] (00:29:55) executive, but I've got a long, a long-term view. I know many of you in the room are benchmarked year-to-year and are facing passive investment that you have to outperform every year. But what I'm trying to do is to give you a name that if you buy it now and hold it for many years over that period of time, you'll be glad you owned it.

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

I'm going to thank you. You know I think we've used the whole Wayne Gretzky analogy. We've beaten that one to death.

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

Thank you.

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

But I think, that's exactly what I think investing...

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

You're dating yourself with Wayne Gretzky. You got to get a new hockey player.

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

I think that's what – when investors invest in ICE, I think that's what they're looking for as well as your vision of where things are going rather than where they're at right now.

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

Thank you. That's kind of you to say. Thank you all.

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

Thank you. Yeah, bye.


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