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Intercontinental Exchange, Inc. (ICE)

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MANAGEMENT DISCUSSION SECTION

Alexander Blostein  
Analyst, Goldman Sachs & Co. LLC

All right. Well, we're going to get going with our next session. Thank you, everybody, for joining. It is my pleasure to welcome Jeff Sprecher, CEO of Intercontinental Exchange. Over the years, ICE has evolved from an energy platform into a network of trading, data and now mortgage solutions with about half of its total revenues coming from recurring income, supporting the firm's double-digit EPS growth record that we've seen obviously over many years. We'll spend time with Jeff today on the progress ICE is making in integrating and digitizing the mortgage industry as well as really the evolution of the trading platform and a number of other things.

So it is truly great to see you, I said this year the great to see you has taken on a whole different meaning.

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

Yes.

Alexander Blostein  
Analyst, Goldman Sachs & Co. LLC

So it's awesome that you're here. Thanks for making the trip.

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

Thank you very much for having me and thank you all for attending in person. It's good to see you, too.
QUESTION AND ANSWER SECTION

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

So I wanted to start, Jeff, with a question really just around the management changes that you've announced yesterday, lots of moving pieces. So maybe just to kind of give us cliff notes on what should be the main takeaway for investors from the changes you announced yesterday?

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

Well, we had an opportunity to make some changes. Stacey Cunningham, who runs the New York Stock Exchange, approached me earlier this year and basically put her hand up and said, I'm really getting burned out trying to run this business which is symbolic of keeping Wall Street open while navigating COVID and keeping people safe. And while we've been – since we've owned the company, we've been redoing all the technology underneath and we're just finished now a multiyear plan to completely do the entire underpinning.

So anyway, we had an opportunity with Stacey leaving to move some people around and we just thought, well, we're such a large company now and we're trying to groom the next generation let's create opportunities for people that stretch and try new things. And my company has historically very low turnover and part of that is we've been a growth company. And so, people take on more responsibilities and stay engaged, and I want to keep that alive now across all the different asset classes that we touch. So, it's a pretty big rotation.

We worked on it for months and everybody that – I got nothing but positive feedback inside the company. People are excited to find new roles and people are excited to have some new leaders in their organizations and so just kind of refresh the enthusiasm. Stacey is going to act – I'm on the board of the New York Stock Exchange and she is going to take my seat and stay there. That will allow her to step back a bit. And I also gave up the chairmanship title to Sharon Bowen, who is a securities lawyer who was a regulator in the Obama administration, worked with our current SEC chairman, has a great relationship with him. And so, it just seemed like she was better suited for that job than I am now that the technology and the integration has been completed.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Great. Well, that's helpful, and we'll dig into obviously all the businesses over the course of the presentation. So, maybe we'll start with Ellie Mae and the integration. So, since you closed the deal a bit over a year ago, we've seen revenue growth really surpass expectations, I think that's fair to say particularly from the subscription part of the business. I think that business has grown around 30% a year for 12-plus months now. Maybe we can take a step back and walk through some of the biggest drivers of success there and how you think about momentum in that more subscription part of the model because obviously mortgage volumes will do [indiscernible] (00:03:44), but curious more about that later piece.

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

Sure. So, Ellie Mae, if you haven't followed us, is a loan origination platform and we acquired that. We had a middleware piece called MERS, the Mortgage Electronic Registry System; and then we had a backend piece called Simplifile, which is a registration and settlement and closing company. And we put all three together and
now we have an end-to-end network. And we have about 1,400 third-parties in the mortgage space that use our network to – in some way, for delivering parts of their services. And so, it just started.

That industry has always – imagine a manufacturing industry where every component is made somewhere else and then it all comes together in a lawyer's conference room. That industry is just so ripe for an end-to-end solution where everybody is using the same data set and the same metrics and the same network. And so, as we did that, it took this kind of industry pricing model where every person charged for their widget on every loan, so putting it altogether and starting to change the business model. And so, we have consciously been taking people whose contracts come up for renewal and saying instead of pay as you go, what if we put you on a mobile phone plan, tell us how many minutes you want and we'll give you a discount against the per unit minutes if you'll lock those in. Oh, by the way, if you go over your minutes, it's going to be expensive.

But in exchange for locking in something that we can lean on in good times and bad, we'll give you a per-unit discount based on your estimates. And that's worked out really well because most people would rather have a predictable fee, if you will. Most manufacturers, even if they're buying more capacity than they need, they know they have the capacity, if you will. And so – and then, there are certain parts of the business that do lend themselves to just pay as you go. Anything that the consumer themselves is going to put on the closing statement, anything that would be unique to you as a borrower or your home, where it's located, what city you're in, what have you, certain fees and legal requirements just make it obvious that the end user should pay that.

So there was never a standard in the industry for this and everybody was dealing with it differently. And, I think, over time, you'll see us kind of do what you, Alex, know that we do, which is take a big piece of the business recurring and keep a part of the business that will be transaction-based and therefore have upside but lock-in downside.

Alexander Blostein  
Analyst, Goldman Sachs & Co. LLC

Great. The one thing that definitely stuck out to me over the course of the year is a lot of the success that Ellie Mae has had is really based on things that they've done well before ICE acquired. So, they were in a pretty good momentum and they continue to be on that momentum. One of the things you talked about is the synergies between ICE and Ellie Mae over time even outside of things like Simplifile that has a natural kind of adjacency to the mortgage business, but things like data, things like indices, et cetera, how are you thinking about the synergies between the two businesses over time and when should we expect to actually see that materialize in revenues?

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

Yeah. When we bought the Ellie Mae, the Chief Executive wanted to retire. So, we had the ability to step in right away and work with the management there. And then secondly, we have been working together building this network in a partnership without really talking a lot about it. And so, the teams had only worked together. So, once we acquired the company and took control of it, and their culture was very much like our culture, which always helps, and so our teams just hit the ground running, which really started to get some growth in revenue just in the core business that we just talked about and also allow us to start working together on some of the synergies that we see between the broader ICE and their company.

And we took a team of our data scientists, particularly people that deal with unstructured data, and we put them together with the mortgage team just to explore what data is in the manufacturing of a mortgage and what data do we have legal rights to and what are the regulatory requirements around consumer data and the like, and we
come out with, really, our first couple of products, but the first one that I think is really meaningful, which is to be able to publish essentially the real-time rate that people are locking their mortgages through a whole category of different mortgage types.

And because we touch 50% of the mortgages at that point in the manufacturer, the data that we have is highly correlated, and we have it in real time. We're publishing it end of day right now, but we have the ability to do it in real time. And heretofore, that was all done in arrears. And so, if you are somebody that has to hedge locking a mortgage, we're giving you a tool that we think should be widely adopted. And we also think it'll derisk a portion of the mortgage industry. So, that's an exciting product. We have a number of teams like that that are working across – Ellie Mae, the thing that we missed, we've looked at buying the company two years earlier. And it was all heavily installed software. And what we missed was the fact that they were moving quickly to the cloud. And so they have a lot of cloud-based experience and we've brought their people into our other parts of the business to see where should we be in our own data centers, where should we be in the cloud. So, and that – you won't see that on the top line, but you're definitely going to see that on the bottom line, cost containment, if you will. And that's – in financial services, that's a big topic right now on how you're going to manage your cloud infrastructure and how are you going to manage the cost of turning over your cloud to some third-party.

### Alexander Blostein
*Analyst, Goldman Sachs & Co. LLC*

Right, right. Left shift gears a little bit. I want to spend a couple of minutes on the energy business for you guys and really zoning on the carbon markets. As you know, that's an area we've been focused on and sort of writing about is related to ICE. It's kind of been sneaking up on people with a bit of a surprise, almost. If I look at the environmental product suite that you have, it's about 10% to 15% of the energy revenue today. I was curious to hear your vision on the sort of carbon markets over the next couple of years. How do you think they evolve? What role do you think ICE plays in those markets?

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

It's a great question. We've been long environmental for quite some time. And in fact, we bought the Chicago Climate Exchange 11 years ago and people thought – and we paid like $675 million or something around there, $670 million. People thought, wow, why would you pay that much money for emissions-oriented business. But we just felt like it was coming and the business that we run and we really or probably 90% or 95% of this industry are the regulated carbon markets. So these are markets where in Europe, now in the UK, in California, and the Pacific Northeast and Pacific Northwest – or the Northeast and Pacific Northwest, there are regulatory mandates on emissions and renewable energy usage and other things, and we basically run those markets, so we want to run the regulated markets.

We announced at COP26 that we're moving quickly now into, let's call it, the consumer market or the free market for carbon, voluntary markets that countries and corporations and even individuals are interested in participating in and these tend of be nature-based offsets right now. And so, anyway, we've had a team working on those. We're going to be rolling those out next year. And it's a whole new sort of category, but the main players that are in the historical carbon market, which are the utility companies, large energy companies, government agencies, they're already all on our platform. So, we have a real strong head start, if you will, in the connectivity to those markets.

### Alexander Blostein
*Analyst, Goldman Sachs & Co. LLC*
Right. And what about the financial uses of these products, right? So, when I think about the futures, you guys have [indiscernible] (00:13:16) futures predominantly EU-based today, maybe expanding into other regions, how the underlying kind of customer base evolving from [indiscernible] (00:13:24) user perspective, but more from a financial user perspective?

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

Yeah. It's interesting because when you add a clearing house in the middle of these things so that the buyer and the seller can essentially trade anonymously, it always allows these markets to expand into players that just have an adjacent interest, but maybe don't – aren't going to produce a lot of carbon or aren't going to consume a lot of carbon, but may have a view on where the carbon markets go. So they have been broadening and widening along with a number of other utility-oriented markets. Honestly, there's kind of a retailization of everything going on in the world right now, a broadening of access with our apps on our phones. And so, anyway, we've seen – it's part of what's driving that growth that you're mentioning there.

We also are getting a lot of inquiries from governments that are looking at what other governments have done and seeing how – we launched a UK carbon market just recently as a result of the decision between the UK and the EU that the UK was no longer going to participate in the European carbon markets. It was unclear whether they were going to stay in or leave and what the Brexit results were going to be. Well, ultimately, they launched their own, we immediately – we had all the domain knowledge, infrastructure, contractual knowledge to launch those contracts. And on behalf of the UK government, they immediately have been successful in terms of a launch. And so now other governments are coming to us saying, can we do the same thing? So you kind of have both an institutional pull that way and then a more consumer-oriented pull in the more nature based.

Great. Sticking with the energy topic for a couple more minutes, let's talk a little bit about nat gas or really global nat gas. And that's been another area of success for you guys, particularly TTF. I think it now comprises something like in the 15% to 20% contribution of your energy trading revenues, again a product that wasn't all that big only a few years ago. So maybe you can help us understand some of the secular underpinnings of the global nat gas market, again ICE’s role within that and how sustainable do you think ultimately that has before others might try to compete?

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

Yeah. Again, we were somewhat prescient that we – and you know this we, years ago, thought that there needed to be a benchmark natural gas outside of the US, particularly on Continental Europe. We figured and we went to a gas company there that had a storage facility and a Dutch company and worked with them to basically launch this TTF contract. And we said to them, if we will work together and sell us an economic interest and make it worth our while, we think we can drive that benchmark and sure enough that's happened. And we're doing something similar in Asia now, JKM contract.

And so, what's happened is in the United States, the natural gas market developed where you had the Henry Hub natural gas contract, which is the benchmark, if you will, for the price of natural gas. And then you had dozens and dozens of locational basis differences if you weren't next to the Henry Hub, which is a physical location. And so that model of where is natural gas and it may be a delivery point like LNG terminal if you're not drilling for it in
the ground or where is a well source for which is so similar to this TTF contract. And then how do you have all these basis differences, which are pipelines and compressed gas being trucked and what have you.

And so, it ends up where you end up with a whole ecosystem, dozens and dozens of contracts and we're just good at that and it's very kind of physical. And we have a lot of contacts in the industry that have helped us design that ecosystem and it's working right now because if you think about – I was at a presentation recently where we were talking about net zero by 2050, and so – and there's a commitment by a lot of companies, you made in your company and countries to be carbon neutral by 2050. And that would – if you look at projections of energy usage in 2050, it's like double where we are today than many people's estimates. And so, you're saying not only do we have to offset the entire amount of energy that we produce in the world today, we got to do that times two.

And so – and there's – we don't have a technology or a roadmap to do that today with what we have, let alone 2X. And so, your mind just tells you while we go on that path to 2050, it's not going to be a straight linear line. There's going to be fits and starts, some of this is dependent on technologies that don't exist today, cost structures that may make something that is not cost effective today, cost effective in the future, whether it be through higher prices or lower manufacturing costs, and so all of that is going to be bumpy. And we think natural gas is a transitional fuel from heavy oil and coal to something quite green and renewable. And it's going to – there's going to be a lot of price movement there. And we saw it this year in the UK, if you follow what happened in the UK, where they didn't have a lot of wind and they were dependent on wind energy and had sort of backed away from other sources, more conventional sources, and suddenly natural gas became the variable fuel and the prices shot up for a while. And so we think that's probably a pretty good indicator of a marker, if you will, of how the transition may go. It's going to go a bit in fits and starts. And our energy portfolio starting with conventional oil and high carbon products, all the way to renewable energy and low-carbon products and offsets, and everything in between is really how the market will financially manage that transition because that transition is going to be heavily dependent on price discovery.

Great. That makes sense. All right. Why don't we switch gears a little bit? I want to speak to maybe another important area of growth for you guys, which is around the fixed income data, fixed income data analytics indices, the data tapes using algorithms and unstructured data to help people figure out what's going on.

And so, we were late to the front end of the business. And so, we immediately went to the back end, which are the indices, the data tapes using algorithms and unstructured data to help people figure out what's going on.
going on in the fixed income markets broadly around the world. And we also went quite global because some of the trends in the US are late to catch on elsewhere in the world, and that's paid some dividends for us in the way you mentioned, which is compounding subscription revenue that – and part of the core of that was an acquisition we did a few years ago called Interactive Data. Interactive Data Corporation was really a back office product. Goldman Sachs would use that data to mark their book to market. And so, deep in the back office, there was somebody that was consuming that data.

We said to ourselves with our connectivity and relationships, we think we can move that data all across an organization. So, we've moved it more into trading in the front office into part of the middle office, and really have concentrated on the exchange-traded fund business where there's all or a portion of fixed income in an ETF and becoming the indices and the reference data and the underpinnings and the mark-to-market accounting and anything that an ETF in that area needs. If you follow ETFs, and many of you here are highly aware of equity ETFs, the big difference in bond ETFs is that bonds get paid off or companies go bankrupt or refinance and the fees, bonds, and so the index construction is constantly fluctuating. And so, having a real knowledgeable data scientist around that has been our key.

Alexander Blostein
 Analyst, Goldman Sachs & Co. LLC

Right. Let's shift gears a little bit. I want to spend a couple of minutes on the corporate strategy. ICE has been acquisitive over the years. And the way I kind of phrase it is there is a wide spectrum of deals that you guys have done. There are obviously some large, very transformative deals like you guys have done with NYSE and IDC and obviously most recently with Ellie Mae. And then there are smaller adjacencies that you've kind of added to the platforms that you built. So, if you look out over the next couple of years, are there lots of opportunities that you see to continue to do these maybe smaller add-on deals around the three verticals that you have or transformational deals could still be on the table?

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

It's both, honestly. I think we start with – I'm probably older than everybody in this room, honestly, but when I went to business school back when you had to carry a book and a slide rule, I learned that good companies should have increasing dividends. And so, part of the – our board decides the dividend policy, but part of the construction of the firm is we should have an ever increasing dividend. We should be growing revenues, we should be increasing EPS and we should be increasing the dividend.

So, take that capital return there. Then what do you do with all the excess capital? And in our minds, we either find a high use for ourselves or return it. And so, we've been doing a returning through share repurchases. And so, when we're looking at deals, either large transformative deals or even small bolt-on deals, we always have to measure that against – would that be better long term for shareholders than buying back our own shares? And that's the – we sort of model our own shares. We may even use some of Goldman's modeling and others along with our own and then figure out what's the best return on invested capital for shareholders.

In that alchemy is a buy versus build strategy, which is we know where we want to go. And if a company comes along that will accelerate our time to market, that will make its way into a financial market because the investment returns will be more front-end loaded, but it is that sort of simple. And on transformative deals, largely we're looking for analog to digital conversions and areas where there are tailwinds, macro trends that will push us along. And we think about what we do well and who our customer base is and are there adjacencies to the things we do.
And so sometimes it seems a little odd to people like why did you go into mortgage when you owned the New York Stock Exchange. But the reality is, as I just described it, it's a network with a database in the middle of 1,400 people that are pointed at that database. And what is the New York Stock Exchange? It's a network with a database and a lot more than 1,400 people pointed at that same database and so. So, where we think we have the skillset to manage through an analog to digital conversion or do something unique with our database and network skills, we'll do it because we know it will have a high ROIC.

Alexander Blostein  
Analyst, Goldman Sachs & Co. LLC

Great. The other side of that coin is divestitures. And we've seen you guys maybe [ph] improving (00:26:37) the portfolio a little bit more recently that we've seen you do that in the past. So, there was a [ph] passive (00:26:43) stake in Coinbase, you sold that, Euroclear. You might be able to [indiscernible] (00:26:46) what the path of that is going to look like. So, as you think about a collection of businesses, some are going to be naturally faster growing, some are a little bit of slower growing. Is there any appetite to do something a little bit more transformative on the divestiture side of things or the collection of business that you have feels pretty good?

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

Yeah. Well, I think one thing embedded in the question is that there's been a roll up in the exchange space that a lot of people have followed us for years witnessed, but I'm also willing to roll out. We at one time owned the French, Dutch, Belgian, Portuguese stock exchanges, for example. And we rolled them out. And so we, in thinking about our mandate, which is to grow revenue and to grow earnings per share, if something is not going to contribute to that, then you'd like to do both. I'm willing to take just the EPS as long as it's not manufactured through financial engineering. And so I think that's just part of our jobs and we do strive to have a double-digit earnings growth every year compounding on, and we've done that now for 15, 16 years that we've been a public company. And we were private five years before that.

And so I'm open to anything. We run our own businesses through our own models and think about is this contributing to the cause or is it subtracting enough to end. And as you said, one of the things like Euroclear where we bought that as a hedge because we didn't know we thought we'd better have clearing assets in Continental Europe. Coinbase, we invested in exchange for them giving us knowledge about the blockchain. And so some of these things have been – have always been a little loose in terms of the way they were connected to us. They were there for a moment in time, but I'm not afraid any business to roll out. Bakkt was one where I think it will be better capital structure as an independent company than it would be under us. We were getting penalized for the cost of a start-up in a big organization, and it's being rewarded for the vision of being a start-up in the public markets and that's the reality and I want to do right for shareholders.

Alexander Blostein  
Analyst, Goldman Sachs & Co. LLC

Great. All right. I have a bunch of questions, but we're almost out of time and I want to make sure we've got some time for the room to ask questions as well. So if you have a question, there should be mics coming around. So, just raise your hand. All right. Maybe I'll ask one more then. Crypto and DeFi. So, definitely a buzzword around the conference, but not the first time, not the [ph] first year (00:29:38), but I guess as we think about the future of digital for the exchanges in clearinghouses, what's the concern on your end about potentially being at risk or [ph] disintermediating (00:29:50) by some of these technologies versus participating in these technologies yourselves?
Jeffrey Craig Sprecher
Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

Yeah. I personally, including, the company that we started back, I personally think that DeFi is not disintermediating in the industry. But what it is doing is it's got mindshare, particularly with the next generation of consumers and largely, to me, most of the financial services companies that are "DeFi companies" are just brokers. They're digital brokers. And they have captured through the environment that we're in right now a willing customer base and a lot of legacy firms that are in the industry are missing the movement of those customers into our industry.

And so, I don't think it changes anything other than the names of the players. For me as an executive, I don't want to – I want to be on the right side of that ledger. And to a certain degree, our company was early in going analog to digital against four traders, right? So, I don't want to – I'm all too aware of that fact. And so, it's partly why we stay pretty aggressive in building networks and keeping them very connected and even why we've decided to launch Bakkt as a direct – more direct-to-consumer B2B and B2C play. But anyway, we'll see a lot of those companies that are doing well now have their long-term health will be as they become full-fledged financial services companies. The blockchain itself, in my mind, is an indelible record that is widely distributed. And so if you ask yourself what information in the world needs to be indelible, in other words everyone needs to know it and that record needs to be permanent, that's a pretty small universe of things.

The New York Stock Exchange, if you trade on New York Stock Exchange, you click a button on your desk and you know you did a trade, your broker knows you did a trade, the exchange knows you did a trade, the clearing agency knows you did a trade, the regulators know you did a trade. So that's a distributed database. Does everyone in the world need to know that? I don't think so. I think ultimately all of us are – what's the most precious thing that needs to be known? It's probably us as individuals. And I'm not anxious to have my life and everything I do put on a blockchain, but that's probably where we're heading.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Fair enough. All right. Well, on that note, Jeff, thanks so much for being here. Always a pleasure to have you.

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

All right. Thank you.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Thanks again.

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

I enjoyed it.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Thank you all.