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Intercontinental Exchange, Inc. (ICE)

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Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

All right. Well, welcome, everyone for our next presentation. We are fortunate to have ICE here with us today. For those of you who don't know me, I'm Brian Bedell. I cover the exchanges here for DB Company Research.

So, for ICE, we're fortunate to have two great executives here. I'll start with Warren Gardiner who is CFO a year now. Joined the company in 2017. It was really his career as sell side research analysts that qualified him for the CFO role, so.

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

That's correct.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

And then of course, Lynn Martin as well. Now, she is with us back in 2018, just after the IDC acquisition. And she came over with the New York Stock Exchange and is now the President of the NYSE Group, which includes the New York Stock Exchange, along with other operating businesses there. And she chairs the Fixed Income and Data business overall. So, we'll be talking a lot about data, of course.

Just for those of you who don't know ICE really well, it's not only the operator of futures and equities exchanges, but also is really on a mission to, as we'll talk about, to digitize lots of analog businesses.

So, you started out with the futures business in 2000 of modernizing the NYSE, recently also the fixed income, data business as well. And now they are on a task to modernize and digitize mortgage loan origination process [ph] as everyone (00:01:38) goes through that process, it could definitely be better if it was digitized.

QUESTION AND ANSWER SECTION

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Q

All right. So, maybe I'll just start out and I've got a bunch of questions, but we can make this a free flowing conversation. So, if anyone has a question, just raise their hands at any time. And I think we've got someone around coming around with a mic.

Maybe just to start to set the stage, Warren, if you want to talk about how you're feeling about the position of ICE right now in the landscape of all the businesses, what you're most excited about for the future growth trajectory? And so, maybe just touch on some of the – what you think are the longer term revenue and EPS drivers?

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

A

Sure. Thanks, Brian, and thanks for having us here today. It's great to be back in person and see all of you.

And so, yeah, look when we think about ICE and where we're positioned today, certainly we've evolved, I think over the last 20 or so years. And as you mentioned earlier, we started out in the futures business and evolved into broadening that into other areas of futures from commodities and interest rates into equities, New York Stock Exchange, of course, more recently in 2015 broadening into fixed income. And then, of course, in 2016 and 2020 a string of acquisitions into the mortgage space to help digitize the mortgage space.

And really it has been, while we have evolved as a company, the strategy has always been the same in that we're looking for different asset classes, different opportunities within those asset classes to bring efficiency to the workflow within those asset classes. There are of course, nuances across the different asset classes that we're in but that's the end goal as you as mentioned there.

And so, when I think about what we're able to do there, it comes down to the common thread that runs throughout is really its technology and it's our – its data services and bringing – those kinds of things are really what brings that efficiencies across different asset classes, albeit in different ways at times.

So, when we think about where we're positioned today across those businesses, we're at the center of an energy transition with billion-dollar revenue stream that over the last 5, 10 years you can pick your timeframe that we've grown that business on average and in the high-single digits and it has been a combination of organic product development and inorganic acquisitions, whether it's the climate exchange or index, which brought our natural gas bench, some of our natural gas benchmarks, really building out that network really at that asset class and to position ourselves.

Today, we're a global energy platform across a range of different sources of energy is what has enabled us to really grow the way we have. And so, as I said, where we sit today, again, we're at the center of an energy transition where customers are really looking for those risk management tools that we're uniquely able to provide. And so, that one I think was the point one in terms of what we're really excited about.

As you kind of move over into some of the other areas we're also, as I mentioned, a big provider of data services within the fixed income world, end of day pricing primarily is the foundational network, if you will, that we purchased with the IDC acquisition in 2015, that really has enabled us to leverage – leveraging that network,

5,000 customers or so to create new products, bolt on different types of products such as indices, creating better indices for the fixed income world, front office tools whether it's liquidity indicators or real-time pricing or things of that nature, and really growing that business at a rate that has been last year was around 6%. We exited the first quarter at about 6% or so ASV. So, continuing to compound growth, a recurring revenue business that really has been compounding on itself within an asset class that I'm sure all of you are aware also very much going on this analog to digital conversion.

And then the other area that I think is really exciting for us is then within the mortgage space, which certainly we announced an acquisition of Black Knight recently, but that's an area that is, as Brian alluded to, as many of you probably aware, is very inefficient, probably the earliest of all the asset classes that we're in in terms of its progression.

And so, when we look at that asset class and the opportunity we're seeing there, that it cost \$9,000 or so today to originate alone. The opportunity we see is to take significant cost out of that and share in those savings.

And so, I think as you think about the opportunity for us in that asset class is that we think it can be an 8% to 10% grower on average. And that really comes alongside that opportunity to bring efficiencies to the customer and again share in those savings. And it's really that's what we do really across the business and the opportunities we see across the business. As we bring efficiencies, bring value to the customer, we can share in that value proposition.

So, you combine that with which has always been disciplined expense growth and investment in growth, you have a business that I think can sustain cash flow growth well into the future. And so, we're very excited about that.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Well, can you take that \$9,000 down to for a...

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

A

So, we talked about a couple of thousand dollars but I think if you think about the opportunity that we have with Black Knight, as a combined platform, it's just that much greater in terms of what I think the efficiency we can bring to the workflow. And again, that flows through to the customer, that then flows through to the end consumer, which I think is a really important point to be making. So, I think we're excited. It takes some time to get there but because like I said, we're in the early innings of that trajectory but certainly an exciting opportunity.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. And I definitely want to come back to the mortgage business in more detail but maybe if we can talk about your business, Lynn, a little bit, the New York Stock Exchange. So, maybe how do you see the overall position now of NYSE within the exchange landscape currently and then how that has evolved under ICE's ownership since before you came over to ICE?

Lynn C. Martin

President-NYSE Group & Chair-ICE Fixed Income & Data Services, Intercontinental Exchange, Inc.

A

Yeah. So, I mean, I think the New York Stock Exchange continues to be, obviously, the biggest global market, biggest market in terms of capital raising, the most well-governed, largest companies list on the New York Stock

Exchange. So, we like to view ourselves the preeminent stock exchange. Since ICE's ownership [indiscernible] (00:07:47) carry over what some of the things Warren said was ICE is very focused on technology.

So, I remember being at the New York Stock Exchange not really focused on the equities business. I was more focused on the futures business. But I remember my equities colleagues when I was there talking about technology break-in, things of that nature, outages, challenges with resilience of technology.

So, it's not surprising that the minute ICE acquires the New York Stock Exchange embarked on a multiyear project to harmonize technology, upgrade technology, make it lighter, more scalable, most deterministic form of technology.

And now, because we've done that, we just finished rolling out our Pillar technology last year. These things take time. We now see increased message volumes – or peak message volumes. We're handling right now half-a-trillion messages from an incoming order messaging perspective on a pretty regular basis. They're handled with ease. It's treated as though it's the quietest time in equity markets. I mean, we're seeing 20% more messaging volumes this year than we saw during the pandemic when we saw those bouts of volatility.

Had we not made that investment in technology, we wouldn't be able to handle these things with ease. And that really enables us to not only gain share or continue to claim share in the equity markets, but it's also attractive to companies who are looking to IPO on us. Because if you take the technology, the state-of-the-art technology we've implemented alongside our floor broker model, the DMMs there are really positioned to smooth out times of volatility, or at a really unique moment in time when the fact that we've got cutting edge technology coupled with human judgment really resonates for a company when they're thinking about coming to market, not just necessarily from their IPO, but what is day 2, what is day 10? What is month five, what is month six going to look like from a volatility that impacts the stock perspective?

So, that message is definitely resonating right now as more and more companies are worried about volatility. They're worried about executing their IPOs and their transactions, they are also worried about, as their life as a public company executing follow-on transactions and what kind of quality are they going to see in the market. And that's where our floor broker model really resonates.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Q

Now, while you're talking about IPO, so obviously that's dried up a little bit here with the market volatility. Maybe talk about I think you have a strong pipeline, if I'm not mistaken, you talk about the pipeline. And then maybe any, who knows, is a crystal ball question, but when that might start to come back in terms of activity?

Lynn C. Martin

President-NYSE Group & Chair-ICE Fixed Income & Data Services, Intercontinental Exchange, Inc.

A

Yeah. So, the IPO market, I wouldn't say dried up. It's just on pause. Everyone, there's a huge – there's a good pipeline. And what most people don't know is that we are talking to multiple private companies a week about entering public markets. The currency of the public markets and demand for that currency has never been stronger. It allows customers to raise capital in efficient fashion, invest in research and development, you also get a different currency from an M&A perspective. So, there's a lot of [ph] – to reward your (00:11:10) employees, shareholders. So there's never – the demand to come to the market has never been stronger.

What has happened, though, is because of volatility in the market, everyone's on pause, everyone's taking a breather. You saw an influx of activity at the end of last year. Valuations were very high, so, everyone wanted to

get out before the end of the year. So, when the volatility entered in January, the market just decided to take a little bit of a pause. But that doesn't mean that there's not a shortage of demand and shortage of pipeline.

So, we're working with a variety of companies every day as to when are you going to be on the road? When do we think we're going to open your stock? All of those types of things there. There are quite a few companies that are looking to come to market.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Q

So, as soon as the market comes back up, we might see a flood of IPOs [indiscernible] (00:12:00)

Lynn C. Martin

President-NYSE Group & Chair-ICE Fixed Income & Data Services, Intercontinental Exchange, Inc.

A

Yeah. It's not that different than what we saw in 2019 and 2020. 2019, we entered the year with a government shutdown. 2020 we had the pandemic, so the IPO markets were on pause. You had multiple challenges in market. You had a trade war or a financial crisis where at times the IPO market does this.

It takes a minute. Wait to see what the market conditions look like, and then people come back out to market, the IPO market reopens. The key indicator that people look at is the VIX. It's not really necessarily is the market up or the market down. It's really what the VIX is doing, the volatility indicator.

As long as you see that around like 20, maybe a little bit below 20, then you'll start to see companies come. But right now, I mean, there are days I walk in it's over 30. So, I understand why companies are just being a lot more thoughtful, methodical about how they actually come and when they actually come.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Q

That makes sense. Maybe just talk about your priorities now that you're heading up the NYSE. What are your top few priorities in terms of business growth and [indiscernible] (00:13:03)?

Lynn C. Martin

President-NYSE Group & Chair-ICE Fixed Income & Data Services, Intercontinental Exchange, Inc.

A

Yeah. I mean, I'm spending a lot of time, unsurprisingly, on the listings business, probably unsurprising to many of you for a variety of reasons. It amazes me how much interesting new technology is really fueling multiple industries, including like clean energy, which if I put my ESG data hat on, that's got some really interesting pull-through to the rest of the company. That's one area I'm focusing on.

The second area I'm focusing a lot on is really advocacy, advocacy for public markets, advocacy for concerns that issuers have like CFOs like Warren who may have concerns about additional regulation that may be imposed on CFOs and CEOs in terms of either buybacks or whatever the case maybe, just spending a lot of time with our existing community there.

And then finally spending a lot of time getting the last vestiges of the old technology out and the new technology in. And so, we're about to upgrade one of our options markets. There's only two platforms left. One of our options markets goes beginning of July on the new technology which we're really excited about. And then the last bit will go at the beginning of next year.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

[indiscernible] (00:14:19)

Q

Lynn C. Martin

President-NYSE Group & Chair-ICE Fixed Income & Data Services, Intercontinental Exchange, Inc.

[ph] NYSE AMEX options will be the last one (00:14:20)

A

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Yes. Okay.

Q

Lynn C. Martin

President-NYSE Group & Chair-ICE Fixed Income & Data Services, Intercontinental Exchange, Inc.

Yeah. Arca Options business in July.

A

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Okay. Great. I do want to go back to ESG, because that's a really important subject. But maybe just a flip back to the mortgage technology business. So, just maybe talk a little bit about your ambitions in the space and the big picture. So, obviously, this started with the MERS acquisition it was Mortgage Electronic Registration System, I think, in 2016. And then obviously Ellie Mae in 2020 and there's Simplifile in there as well. But maybe talk about what you want to do with Black Knight in terms of that entire value chain so to speak?

Q

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

Yeah, sure. And maybe I'll give a bit of an overview of the history there because I think it's important. So, if we start with MERS in 2016. MERS is really a – it's a mortgage registry database where it effectively assigns a sole security number, if you will, to every mortgage or almost every mortgages that's out there.

A

We took a majority stake with – non-controlling majority stake in 2016. The plan in the agreement was to then rebuild the underlying technology. Again, important part of what we can bring to, at the time, was a new asset class was our technology expertise. And so, we did that over the next two years or so and purchased the remaining stake in MERS.

After that, I want to say it was 2019 or so, you're right, in between Ellie Mae in 2020 and MERS was an acquisition on Simplifile, which is an eRecording network that covers close to 90% or so of the US population. Really, what that is, is when you go to – when you purchase a house, in a particular accounting, all the information that you need to register with that accounting can either go through paper documents, through FedEx, which can take weeks and often with errors, or it can go through a network like Simplifile, which is sort of the electronic rails that enable that information sharing, if you will. And, again, it's a network that was built up over 20 years that is very well-positioned within that [indiscernible] (00:16:21)

So, what we had at that point was kind of this position within the closing work portion of the workflow, kind of like clearing almost, if you will, and futures. What we were missing to some extent was the match, if you will. So, the application all the way to the closing period. And that's what Ellie Mae brought us.

And so, from application all the way through underwriting process up to the closing where you manufacture the loan, that's the platform that enables originators to do that, kind of connecting the lender and the borrower, buyer and the seller, if you will, and really starting to complete or help complete the workflow from our perspective.

And so, when you think about what Black Knight then brings us, it brings us additional components of the workflow. And so, they're on the servicing side, about 60% of their business is servicing. They also have some connectivity to the realtor on realtor space through some of their MLS data. They also have a lot of tax and property data that helps people manufacture the loan through origination process. So, filled some gaps in our – will fill in some gaps for us there.

And what we've really found not just in this asset class, but other asset classes over time, is that the broader you are across the workflow, the bigger of a presence that you have across the workflow, the more opportunity there is to identify pain points, bring efficiency, innovate, create new products because you really understand where those inefficiencies lie.

And so, I think what Black Knight does, it really just extends that opportunity for us in an asset class, as we said, that is very much still in an analog state, very much in need of efficiency gain. And so, that from us, from our perspective is where we want to take this is really complete the workflow and develop more products certainly with our products suite and we already are doing that to an extent, but really I think will position us all that much better to go after that opportunity from an efficiency standpoint, which I said earlier, would certainly benefit our customers, lower costs for them. And I think something, too, that will result in savings for the end consumer while also, of course, us sharing in some of those savings.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Q

Right. No, that's – I mean, you made that very clearly on the earnings call. And maybe just talk about the revenue synergy opportunities, I think \$125 million over five years. What types of things do you plan on harmonizing to get that? Is the \$125 million [indiscernible] (00:18:45) is that a conservative number?

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

A

Well, you decide maybe if it's conservative. But certainly when we thought about the revenue synergies, what we did was we took products that all exists today, whether they're Black Knight products or our products and looked at the customer bases and said was there proof of concept here. And yes, in all cases, those were products that were currently being sold to – our products being sold to our customers, their products being sold to their customers. And could we cross-sell those products? Was there sort of a light customer on the other side in terms of the expanded customer base?

And so, those are, like I said, products that exist that I think have a proof of concept, if you will, for sure. And so, I think that makes it relatively conservative maybe towards versus maybe other revenue synergies you've seen others put out there in the world.

I think if you think about it maybe from a more of a top down standpoint, \$125 million is about 1% of the combined \$14 billion addressable market that we think we have as a combined entity. And so, I even – I think from that perspective, it does feel a little conservative, if not, just realistic in terms of getting there.

And so, so we feel good about that. I think in terms of maybe a trajectory, we talked about five years in terms of the target. I'd sort of – I'd expect that to start to see something more meaningful, if you will, in year three, four and, of course, five, as terms of a trajectory for those. But we do feel good about those and have a path.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. And I think one thing that's misunderstood a little bit is the more durable recurring revenue stream at Black Knight versus Ellie Mae which has a little bit more of a transaction component. Maybe just talk about that. This helps reduce – somewhat reduce the overall business mix towards mortgage volumes and is more recurring.

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

A

Yeah. I think I don't actually want to speak for them but certainly you saw in our first quarter results, I believe they grew 10% pro forma organic. To it's the same in that sense. But the 10% year over year, that was against a mortgage market that was down 40% year over year.

And so, and maybe one of those things that was a little lost on things were really good in terms of the origination backdrop that they were continuing to grow through that and certainly mortgage market was doing a lot better but it's not until kind of the tide comes out that you really see what one is made of in that sense.

And so, certainly that performance, I think, is a testament to the stability and the durability of that revenue stream over there. And so, so we like that. Certainly, with the servicing side, it's really based on loans outstanding, their data and analytics business, how large their subscription revenues. And so, that all comes together with our mortgage technology business today, which is 50% or so, and the first quarter was recurring revenue. Pro forma for Black Knight coming over will be a business that's about 70% recurring revenue.

And so, we've talked about the potential growth for the combined business being pretty similar to what we've talked about for Ellie Mae of 8% to 10%. But that's a business today that – well, pro forma, I should say, that will be highly recurring, relatively speaking. So, I think you've got a very solid revenue growth outlook and growth stream, if you will, a revenue stream, but one that is far more sort of with more visibility and durability to it.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Q

Yes, that makes sense. Maybe just to talk about the data part of it as well, you've already had pretty good data revenues in the mortgage technology business. That growth has, I think, surpassed a lot of people's expectations. How do you think about it with Black Knight? What is the opportunity there? And then also you're launching mortgage futures shortly. Maybe just talk about that potential. How big could that be? Obviously, the interest rate futures market is incredibly large. Could this be a substitute for some other fixed interest rate products out there?

Lynn C. Martin

President-NYSE Group & Chair-ICE Fixed Income & Data Services, Intercontinental Exchange, Inc.

A

Yeah. I mean, there's clearly a data. One of the things that struck me when getting to know the IMT, the ICE Mortgage Technology business, the existing business that we have in my previous seat was just how much good high-quality data there was within that ecosystem.

So, my former team and I spent a fair amount of time with the ICE Mortgage Technology team last year, starting to unpack what some of that data is. Not only is it great from an analytics perspective, it's also incredibly rich

when you consider interest rate futures market or some of the other benchmarks out there. I mean, it's observable interest rates as opposed to a finger in the air as to what interest rates are going to do, what Treasury yields are going to do.

You actually see the transactions that go through the ICE Mortgage Technology network in 15-year, 30-year jumbo, non-jumbo, non-conforming, all of these different types of loans that are generated throughout the day for about 45% of the US mortgage market. So, that was from a low-hanging fruit perspective it was just – struck us as a tremendous opportunity to create an index, an observable interest rate index that's updated once a day based on that day's runs, as opposed to surveys that take place 30 days later or however long later day, that's stale in the market.

So, being able to deliver that index to the market just so people can see what interest rates are actually doing and then launch a futures product which allows a much more precise hedge from an interest rate perspective, there are certain parts of the market that should be interested in that, like the TBA markets, things of that nature.

It's a new futures product though, so you got to handicap it there because new futures products are tough to do but we're super optimistic about the prospects there. But also within that data ecosystem enabled us to refine the prepayment models that we had on the ICE Data Services side of the business because we can see prepayment frequency, prepayment speed. And again what loans are getting prepaid and what rates they are getting prepaid at which is great for our Analytics part of the business and ICE Data Services.

The Analytics business also then feeds mortgage-backed security valuations, so, that's a nice tie in there. Additionally, because of all the granular data you see through the existing ICE Mortgage Technology network, you're able to do the loan-to-pool mapping, so you're able to see what actual loans actually contribute to the mortgage-backed securities pools which is probably not the most exciting thing in terms of the data landscape but I think it's incredibly exciting and it's a data lineage that we can put together uniquely because we've got the ICE Mortgage Technology network as it exists today, alongside the capability on the ICE Data Services side to take really messy, unstructured forms of data and turn it into something that the market knows, understands and can be applied to different risk management techniques.

So, I mean we're, on the Data Services side, super excited about the potential to acquire Black Knight, particularly the Optimal Blue business given the strong mortgage analytics that they already have. We just think that that's going to be yet another leg of a very accretive stool that we're already in the early stages of executing upon. And then clearly, the third leg of that stool is to be able to list products on it. So, that's why we're excited about the futures side of the business.

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

A

I think it's a good point, too, just because these are capabilities that Ellie Mae didn't have in terms of taking that raw data and packaging it into something that's more consumable, not only just for our customers on the MBS side, but really even for their origination customers. That expertise that we have was something they didn't have. It's something that Black Knight doesn't have. Certainly, this data has always existed on those platforms.

And so, I think that's one of the opportunities, as Lynn mentioned, was to take a lot of the data Black Knight has, including the servicing data, start to marry it with all the information we have on the originations side. And I think ultimately bring a lot of transparency to that asset class that now, what are we, in 14 years post global financial crisis and we still don't have a lot of. I think it's just – it's a great thing for just the ecosystem overall, not just the

originators, but also the mortgage-backed securities world as well in terms of just bringing that additional transparency.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Q

And the timing of all this, I mean, obviously it's a big ramp, but you're starting to see synergies already. I mean, just with the Ellie Mae and the data business that you've been talking about and the mortgage futures they're listing – getting listed relatively soon, right? Or it's a little...

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

A

Thankfully, yeah.

Lynn C. Martin

President-NYSE Group & Chair-ICE Fixed Income & Data Services, Intercontinental Exchange, Inc.

A

Yeah. I think June?

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

A

I think that's right. Yeah.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. Okay.

Lynn C. Martin

President-NYSE Group & Chair-ICE Fixed Income & Data Services, Intercontinental Exchange, Inc.

A

June.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Q

So, that be fun to watch, yeah.

Lynn C. Martin

President-NYSE Group & Chair-ICE Fixed Income & Data Services, Intercontinental Exchange, Inc.

A

I'm super excited to watch it.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. We, as analysts, we love watching the daily volumes. It's, I don't know, part of what we – we like covering exchanges, obviously, we enjoy doing that.

Maybe just to close the loop on Black Knight, a lot of debate in the market about antitrust. You'll be the largest provider of technology. It's still a small amount of the TAM, some a third or less of the overall TAM just on the mortgage side. If we exclude data from that – that's my own math. I don't know if you can comment on that or not.

But just in terms of your confidence of getting that through antitrust, what are you telling investors? And just maybe a quick update on the timeline of that. I know it's impossible to predict [indiscernible] (00:28:20)

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

A

Sure, right. Yeah. So, in terms of our expected timeline, we would expect the deal to close in the first half of 2023. And so, we've just started to kick off that whole process of working with regulators and that education process that we'll go through.

Certainly, it's one that we've gone through in terms of trying to better understand the competitive nature, if and where it does exist, between the two businesses. And so, if you think about what Black Knight does today, I may have said it a bit earlier, but 60% of their business is servicing. We don't do servicing at all today. So, there's zero overlap there.

There's another 30% or so of the business that's data and analytics which again, very, very little overlap in terms of what we do, largely complementary. And then origination technology, we're certainly at the headline level there. There would seem like there is some head-to-head there between us and what they do on origination technology side. But as we went through – and they had a team of lawyers and we had a team of lawyers go through this independently and look at a lot of the data, we found that there just isn't a whole lot of competition between the two platforms. And so, they end up being very complementary solutions we've discovered.

And so, as we think about that – and look, as we found, as you go through on our key process, you're often looking for something that's either more customized which would be the Empower business or something that's more out of the box configurable, which would be our Encompass business. And oftentimes, one of us is not even in that process or is quickly kicked out.

So, we found them to be very complementary businesses at the end of the day and so we feel good about that as we kind of go through this process. I think it's more of just helping regulators understand what we found, that discovery process and how and when educating them on what we found.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Q

I think people are definitely looking forward to that closing. If it does get more delayed than you think it is, even if it's in process, is it possible to come back to the market and do share repurchases if you have the capital or is that completely off the table until the deal closing?

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

A

No, it's not off the table but only in a sense that we've committed that we would get to 3 times by the end of 2024. And so, to the extent there is some excess cash and we've got a cash consideration component of the deal that we've outlined, to the extent that we have more than that on balance sheet, that's a possibility. We just want to ensure that the trajectory of debt payment doesn't change.

And so, we'll see how that goes but that would be the – as long as we are very, very confident and work with rating agencies, too, that we can get there and over that timeframe, that could – that would be a possibility.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.



Okay. Great. I've got plenty more questions but just if anyone has any other questions, feel free to raise your hand any time.

Maybe back to the Fixed Income, Data business and as we think about that, obviously, steady 5% to 6% growth path which is quite reliable as you had articulated a long time ago. Maybe talk about that and the efforts in fixed income trading and how those marry together and what do you envision taking the fixed income trading to in the future?

Lynn C. Martin

President-NYSE Group & Chair-ICE Fixed Income & Data Services, Intercontinental Exchange, Inc.



Yeah. So, I tend to look at the markets as ecosystems. So, one of the areas that I spend a lot of time with the team looking at last year in particular was the muni market, the muni ecosystem given our strong position on the data side and growing position on the data side of the business. And if you think about a market that is desperate need of transparency and efficiencies, it's really the muni markets. This completely fascinating market that feels like it's still in the 1980s.

Over 1 million securities, they don't all trade very frequently. Most of them don't trade at all. But it's also a market that is incredibly important to the retail investor because of the tax benefits. So, some of the platforms that we acquired, the TMC platform, in particular, that was really had a very big presence in the muni retail ecosystem, still does. I'd say it's probably one of the market leaders in muni.

So, one of the things that we spend a lot of time thinking about is, okay, how do we take that presence given all the data, given all the indices, given the fact that we were able to transition a good amount of AUM away from competitor indices over to our indices last year. Now we're more than 60% of muni ETFs use an ICE index. How can we leverage that position to add to more trading in the muni markets and expand the ecosystem to more the institutional side of the business? So, we did a bunch of infrastructure work last year, put a bunch of press releases out. You may have seen a lot of those were geared more towards integrating our platforms into other workflow solutions.

And now, what you're seeing is not just the volatility has returned a bit to the muni market, but also the benefits of some of the institutional work we did last year starting to pay off. That's why on the muni – it's why on the fixed income execution side, we saw us up 9% last quarter versus the previous year. A lot of that was driven by the fact that we have been able to gain share. We have been seeing some volatility but gained share in the muni trading environment.

Corporates have been a bit tougher, I'm first to acknowledge that. It's a different set of players, different set of participants. So, that's an area that's still got a lot of whiteboarding. We did make some strides in portfolio trading there, but that's an area that seems to be pretty well covered, an area we're still looking at with interest, again given our assets there.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.



Yeah. Great.

Lynn C. Martin

President-NYSE Group & Chair-ICE Fixed Income & Data Services, Intercontinental Exchange, Inc.

And it is an important service, from our perspective but...

A

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

[ph] The portfolio shouldn't (00:34:22)?

Q

Lynn C. Martin

President-NYSE Group & Chair-ICE Fixed Income & Data Services, Intercontinental Exchange, Inc.

No, the trading side of it.

A

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Just the trading side, yeah.

Q

Lynn C. Martin

President-NYSE Group & Chair-ICE Fixed Income & Data Services, Intercontinental Exchange, Inc.

To me, it's just another service, though.

A

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Yeah.

Q

Lynn C. Martin

President-NYSE Group & Chair-ICE Fixed Income & Data Services, Intercontinental Exchange, Inc.

And at IDC, when we acquired IDC, we've maintained this platform-agnostic view because, in our mind, it's more important to be the price, to form a price discovery across multiple platforms. So, our data is plumbed into all the different platforms that exist.

A

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Yeah, the ecosystem is a very important part of that, yeah.

Q

Lynn C. Martin

President-NYSE Group & Chair-ICE Fixed Income & Data Services, Intercontinental Exchange, Inc.

Yeah, correct.

A

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

We should probably talk about energy trading which is sort of a forgotten – it's not a forgotten business, but it doesn't get as much airtime as the mortgage technology and fixed income, data as it should, probably, because it's – right now, it's doing extremely well. I think it's about more than two-thirds of – the energy part is more than two-thirds of your overall futures revenue, I believe, so still the biggest part of that, and which is about – it's 20% of ICE revenue altogether. Like you said, it's high-single-digit pace organically as well.

Q

Maybe talk about the macro backdrop, how that's impacting your energy trading business – energy futures business, how you see that playing out over the course of the year, tough to predict, of course. And then maybe talk a little bit about some new products that are coming out. That might be a good actual segue into ESG because I know there's a big climate franchise environmental complex.

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

A

Sure, yeah. So, the energy business had a great start to the year. It has had great number of years. As I said earlier, you can really – you can almost pick your time period where it's – maybe not every single year, 7%, of course, but certainly over multiple years on average, you've seen that high-single-digit growth across the platform. And again, it has come down to – it's a business that 20 years or so ago, we had a handful of contracts. Today, we have thousands. And again, it has been a combination of organic product development and some inorganic acquisitions, of bolt-on acquisitions as we've added value to that network along the way.

And so, as we sit here today, yes, certainly there was some very unfortunate events over in Europe to start the year. As we look at – that creates a lot of volatility, as you would imagine. And as you saw, as we sit here today, we're looking at open interest [ph] up that 5% (00:36:37) in the energy business year-over-year. It's up from 12% or so from the end of last year.

So, certainly there've been different products that have sort of fluctuated, if you will, a little bit better year-over-year, some a little bit worse year-over-year. It's going to happen when you have a business with thousands of contracts, if you will. But we feel great about it. I mean, the open interest levels as I noted, that means customers are still very much engaged. And then, so we feel great about the position in that business.

I think the way we go really obviously [indiscernible] (00:37:05) trying to identify those secular growth opportunities that exist. And so, we see a number of them across the energy space, if you will.

And so, if you think about something like our TTF contract, which is evolving to become kind of the Brent, if you will, of global gas is becoming that global benchmark for gas. That's our huge opportunity for us to – for not only for that contract to continue to grow as it evolves, but also for us to create new contracts around it like we did with Brent. So, that's a huge opportunity. Certainly, as LNG is moving around the world more and more and that space liberalizes, that has been a huge tailwind for that for our TTF and our global gas business.

The other area that you touched on and we'll get into a little bit more detail will be in environmental space. And so, that was a business that we acquired probably 10 or so years ago called the Climate Exchange. Today, it's about \$100 million in revenue within the environmental space. And again, as the world shifts more towards ESG and that becomes, of course, more important, we're very well positioned to develop more products around that as one of the leading providers of those environmental contracts.

And so, you take that together with our global gas and our environmental business, that's about 40% of our energy [ph] rev (00:38:19) and it has been growing, on average, 15% or so over the last five years and with a number of, I think important and long tail secular trends behind it. And so, we feel very good about the position there.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Q

Yeah. And in terms of expanding more products around that, you've already developed a lot of products recently in the Environmental Complex. But as we think about the whole climate and energy transition, I guess how bullish are you on the growth in that franchise? And not to put a number out there but how much of the overall complex [ph] already 10% (00:38:55) I believe right now of the revenue of energy complex.

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

[indiscernible] (00:39:00)

A

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

[indiscernible] (00:39:01) exactly. And then also thinking about nat gas, too [ph] as I transition to fuel (00:39:04) as well. So, if we fast forward five years, I mean how – it's always hard to predict numbers especially it's impossible to predict volumes. But if we think about the growth of that business relative to the rest of your business, could that be a much larger part of your overall energy business say five years out?

Q

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

I think I mean that's what you've seen. And again, to your point, not to commit to sort of volumes on a particular point in time in the next five years. But I think, yeah, it'd be a fair way to be thinking about it. There's just a lot of secular growth opportunity there that probably doesn't need a whole lot of explaining, particularly in the environmental space and that's a business that again, it was 10 years ago that we purchased it [ph] and certainly (00:39:44), more recently, last sort of three to five years, it has really exploded.

A

We're 90%, 95% market share in the compliance markets, if you will, over in Europe, the UK, and the United States. We've seen more recently more participants coming into those markets, not just over in Europe [indiscernible] (00:40:06) our largest market, but certainly from just around the world. So, we've seen a lot of people that are outside of a particular region coming into those contracts or coming into those markets. So, that has been a good part of the growth.

We're also seeing in those compliance markets that countries are thinking or regions are thinking more about adding additional industries beyond just utilities. So, adding shipping, adding real estate. Of course that will drive additional kind of participation in those markets over time.

And then there's opportunity for additional regions that don't have these compliance schemes today as well for us. And so, that's one component of it that we're very well positioned in today, but also it's just the foundation for us to grow into some of these voluntary markets as well. And so, ESG being a big part of that.

And so, think about renewable energy credits, solar, wind, all of these. As that markets continue to evolve, our position within that environmental space really puts us at least as well positioned to be the leader there over time as the world kind of evolves.

And so, I don't know which particular one of those will be a big contract or a leading contract. But certainly as we sit here today, we're able to kind of develop around it and listen to our customers, communicate with the customers, and develop our products as the world evolves with.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Like you have over time.

Q

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

Yeah.

A

Lynn C. Martin

President-NYSE Group & Chair-ICE Fixed Income & Data Services, Intercontinental Exchange, Inc.

Yeah. But then importantly there's a huge data component to all of these things. I mean, we've just done our carbon family of indices, which launched futures products on. So, there's definitely that pull through.

A

And then we acquired a small climate-focused business called risQ, R-I-S-Q, which basically divides the US into a 100-meter grid, goes down to the land parcel size, land parcel granularity, and looks at things like wildfire risk, flooding risk, inland flooding, coastal flooding, heat stress, those types of things, which that's incredibly interesting from a data perspective.

We tied it to the muni markets because you look and you see that, for example, two municipalities could be next to each other. They're not – one is not pricing in the fact that one has wildfire risk, one doesn't have wildfire risk. So, it's super interesting to a muni trader. You can create indices off of that. But then because it goes to the parcel, land size is also super interesting to the mortgage side of the business and from an insurance side of the business.

So, I think the important thing is with any major macro topic, we tend to think about it across all of the businesses at ICE, because we see opportunities across all of the businesses at ICE, either from a futures side, either from an – or from an NYSE side. It's allowed us to provide a variety of services to our issuer community around ESG that we're super focused on and issuers are focused on. Or there's opportunities for the mortgage side of the business or it's pure data sale, but most of the time it's going to tick multiple boxes when we're talking about an opportunity.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Yeah. It sounds like it's unlimited in terms of potential opportunities across the franchise.

Q

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

I think that is a point, too, is that as we've gone from just in the energy asset class to expanding across all these different asset class, I think the opportunity to develop a product, not just a product but unique products that others [ph] can (00:43:13), if you will, has just expanded alongside of it. It's almost exponential.

A

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Like the more you get, the more opportunities there effectively. I do want to finish up on ESG in the NYSE. Just talk about your broad vision of what an exchange should be doing for its listed companies in ESG. What are your priorities and the roadmap towards helping companies?

Q

Lynn C. Martin

President-NYSE Group & Chair-ICE Fixed Income & Data Services, Intercontinental Exchange, Inc.

A

Yeah. And that's clearly one of my priorities to help issuers, the CFOs, CEO, IROs navigate this new ESG landscape as more and more money, I think \$1 in \$3 is coming into sustainable funds. So, more and more companies are looking at different – disclosing different metrics.

My view is that as an operator of an exchange, you're supposed to provide tools to the issuer community that allow them to manage risk. But you're also not supposed to offer opinions.

To me, that's for the market to decide as to whether one bit about Scope 1, Scope 2, Scope 3 emission is more important than is the average for 10 year, 10 years or below or whatever the case may be. That's for you all to decide as investors, not for exchanges to ultimately decide.

So, we have a suite of services that we provide to our listed community, including a database, which looks at 5,500 public companies around the globe and looks at 500 different attributes.

The interesting thing is that was borne out of the IDC Reference Data business. Again, at ICE we tend to think, here's this thing that we have, here's this asset we have, how can we apply it to different scenarios, different use cases? And ESG is a great example.

So, we took this database and instead of collecting terms and conditions on bonds, we now collect information on Scope 1, Scope 2, Scope 3 greenhouse gas emissions scores. Does someone have a net zero target? Do they have unemployment benefits? Do they have work, life health insurance? Do they have – how many female directors are there? All those types of things that increasingly public companies around the globe are disclosing, because so many of you are thinking about how you place your investment dollars.

So, that's a database that goes to our issuer community that enables them to benchmark themselves against their peer group, but it also allows them to sort of form the basis when they look at their peer group as to what their own sustainability reports are going to look like. So, that has been a big – I think we've got about a thousand of our issuers actually using that now. So, it has been quite popular.

Second area is more again on the advocacy side. So, we started a group called the NYSE Sustainability Council, which pulls together the Chief Sustainability Officers at some of our largest issuers, we've about 20 of those, maybe 25. We're still adding to the group. It's one of the first things I did when I got in the seat, because in my mind, that's an area that it's important for them to share learnings about disclosures as well as if there are challenges that they want to talk about. It's a forum for them to all convene and get together. So, that's an area that we just formed and has been quite popular.

It's interesting, though, just by the fact that we've got the largest companies, we've got the most well governed companies. If you look at the Russell 1000, 100% of NYSE listed companies have at least one female director. 94% have two or more. 88% have 20% more female directors. So, they're already moving the needle on diversity well ahead of our closest competitor and their issuer community.

So, it sort of reinforces the fact that providing folks with tools is really what helps drive behavioral change, as well as all the work that you all are doing in terms of putting your investment dollars to work.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

It's really good to see the progress.

Q

Lynn C. Martin

President-NYSE Group & Chair-ICE Fixed Income & Data Services, Intercontinental Exchange, Inc.

Yeah.

A

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

It's a long, long way to go. Yeah. [ph] Scott (00:47:23) you had a question? No?

Q

Q

Sorry to keep it going here, but yeah, Warren, you tell really compelling story on Black Knight, the synergies, the accretion and why it makes a lot of sense. Could you balance that with the stock has not done great recently? Do you think it's that investors are concerned the deal is not going to go through? Is it other stuff? Just you listen to the portfolio of businesses that you have, a lot of energy, volumes have been strong, I mean, can you balance just talk about what you think's going on out there relative to a pretty exciting story?

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

Sure. So, I don't know that I'll comment on what is driving the stock versus and the magnitude of it in that sense. It is certainly a choppy market out there today and so there's a lot of factors.

Certainly, a number of our peers are under a lot of pressure, a lot of stocks are under a lot of pressure and so – but we do – when we think about Black Knight, and we thought about that opportunity, certainly their stock had come under a decent amount of pressure to start the year.

As we looked at that company more and more and they're a partner on our network, there's a dialogue there that exists not only with them, but others that are on the Ellie Mae network, the ICE Mortgage Technology network. As they kind of came under some pressure, there was – there's more of a dialogue developed with the things that we could do strategically more. And certainly, knowing them over the years that that was something we would have – we were interested and the opportunity presented itself.

And so, we were fortunate enough, fortunate is probably not the right word since we were the ones that got ourselves there, but from a balance sheet perspective, we were in a position to do a transaction such as this. From an operating perspective, we were in a really good position because we've largely integrated Ellie Mae.

And so, we felt like given the opportunity we had in front of us, it was – it makes a lot of sense. It's a very compelling transaction, I think, if you think about what we can bring to the industry from an efficiency standpoint.

And we're blessed to have a business that enables us to take advantage of those opportunities during times when markets are maybe not so favorable. Standalone companies may be not as well positioned at times when those opportunities are ripe. And so, we're thrilled with that and we're looking forward to moving forward with it.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

I think we are over time. So, please join me in thanking Lynn and Warren.

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