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Intercontinental Exchange, Inc. (ICE)

J.P. Morgan U.S. All Stars Conference

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CORPORATE PARTICIPANTS

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

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Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

MANAGEMENT DISCUSSION SECTION

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Well, thank you everybody for joining us here. This is the ICE fireside chat. It's my pleasure to introduce Warren Gardiner, the CFO of the Intercontinental Exchange. Warren came to ICE in 2017 and became CFO in 2021. So, thank you very much for joining us here today.

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

Sure. Great to be here. Thank you.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

So, I wanted to start out for those of you who are not familiar with ICE. So, Warren, can you talk briefly about sort of what ICE is and maybe the progression of the company from exchange to data provider to mortgage infrastructure?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

Sure. No, it's a great place to start, and thank you all for joining us here today. So, I think when you think about what we do at ICE, there are two kind of core key competencies. There's data services and technology. And if you think about the evolution of the company over the last couple of decades, we started out in the energy markets – energy futures markets. We started with a couple of contracts within somewhat of a narrow area of the energy markets, certainly as you look at them today, and expanded that from those few contracts to today what's thousands of contracts.

And we did that through a combination of organic growth and inorganic growth with a goal or a mission to really be as present across the workflow as we possibly could to really address all the various pain points that customers have across their workflow. And it's at a blueprint or an approach that we've really taken as we thought

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about additional asset classes and entered those asset classes that are adjacent to energy and expanded further from there, to have that blueprint of being across the workflow to utilize data, utilize technology to bring efficiency to the customers' processes and to drive growth for ICE, of course, in that way.

And so, when we think about ICE going from the energy futures markets to – expanding from that into interest rate markets and ag markets and then into equities, fixed income and now mortgage, it really is the common thread that runs throughout all of those asset classes. And the blueprint that we use, as we think about expanding in the asset classes that are newer, if you will, is really to take the data services expertise we have, take the technology expertise that we have and apply it across those asset classes, and again, to really just drive efficiency for the customer and grow through that method. So, that's at sort of a basic level how we think about the company and how we approach different asset classes that we're in.

QUESTION AND ANSWER SECTION

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Right. A few weeks ago, you closed the acquisition of Black Knight. So, congratulations on that.

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Thank you [ph] for that (00:02:42).

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

So, ICE is holding a conference call to go into more specifics on synergies, integration, sort of update investors. But from a higher level, can you tell us a little bit about what you've purchased conceptually and what you're trying to do within mortgage?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Sure. And that's a good extension of what I just said, in that if you think about what we have currently, so prior to Black Knight – I guess, currently, we have all of it, of course, as we did close last Tuesday. But prior to that, we had a [ph] component (03:14) of the workflow. We had application through the closing process of US mortgage. What Black Knight brings us is the servicing component, almost like post-trade in a way. So, after the close, the loan will go on to somebody's books and they'll need some form of technology or some – they'll want to provide some sort of service to make sure payments are made, taxes are distributed correctly, all those kinds of things that certainly technology can help enhance.

And what we've done with this particular acquisition is added that next leg of the workflow, and as I said earlier, really put ourselves in a position where we're now across the workflow in, I think, a really unique way that really no one's done before. And so, what it will bring to us is a – it's a couple of things. First, it positions us now within an addressable market that's about $14 billion that we are a fraction of today. So, certainly well-positioned within that addressable market to go capture an increasing amount of it like we haven't been before and like, I think, many of our peers out there are not positioned to do.

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Within that and how we're going to do that, again, it comes back to data, it comes back to technology and applying those to the workflow and across the workflow to make that happen. And so, a couple examples that may be helpful here, so to think about that as we integrate servicing with the origination side, is that what we'll be able to do with that integrated platform is ultimately really collapse the time it takes to originate a mortgage. Today, it takes 60, 70 days at times to originate what is a pretty basic product that many Americans, many people around the world utilize at some point across their lifetime and – but today still a very inefficient and long process for people to complete.

By integrating servicing with the origination side, we'll be able to bring together these two platforms that as someone is filling out an application to either refinance a loan or to go purchase a new house or a loan for a new house, a lot of that will start with the information from the prior property that's either being sold or refinanced, we'll be able to fill – backfill into that application, really start to speed up the time it takes to complete that application over time. And again, I think it's a step that – again, without these platforms integrated the way we will integrate them over the next number of years, you just wouldn't be able to do, and again, I think one that we really are uniquely positioned to do as well.

Another area that you may have heard us talk about too is within the data space. And so, certainly, there's a lot of data on our current platform today, the origination platform, almost about half or so of loans in the United States are originated on this technology. We're not – for what it's worth, we're not taking balance sheet risk [ph] from doing that (00:06:03), we're really providing the picks and the shovels for people to go and originate those loans. So, about half of the market is originated on that platform. Black Knight has over half of the market serviced on its servicing technology platform that now is, of course, part of ICE Mortgage Technology. And so, you got a lot of raw data on either platform that gives you a lot of real-time information on what's going on currently in the United States mortgage market.

I think over time, we'll be able to take a lot of that data – and we have some foundation for this today, which I'll touch on in a second. But we'll take a lot of that data, package it and create products that not only the primary market, I think, will be interested, so those servicers and the originators that are on that technology platform, but also the secondary markets. So, MBS traders, investors in those kinds of securities, those too will be interested in a lot of the transparency that we're able to bring to that market that really just hasn't existed before, in a way, because of the market shares that we have that others will compete with, but I think we'll be in a unique position to drive forward.

And the other unique part of it as well is that we've got, in our fixed income and data services business, about 1,000 or so customers that take end-of-day pricing, end-of-day pricing for mortgage-backed securities currently today. Those are people that are a captive customer base that we will again uniquely be able to sell these products into through our fixed income and data services segment. So, again, I think it's a unique component of it that, as you bring that neither one of these platforms really on a standalone basis would be able to do in the way that we're going to be able to do it. And again, it did not only bring in some greater efficiency and transparency to the primary markets, but really those secondary markets as well that, again, are really big markets that for decades now have been really, I think, needing a lot more transparency relative to where they stand today, so.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

You mentioned workflow a lot as part of the answer there, to operate throughout the workflow of a mortgage. As part of the acquisition of Black Knight, Black Knight has divested Empower and Optimal Blue. How did the divestitures of those businesses impact the workflow of a mortgage? And do you still have the control that you

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want over those different aspects of the mortgage origination process to take out the time and cost as part of the mortgage process?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Yeah. No, it is a good question. And yes, this year, at two – at two points this year back in March and then more recently late back July or early August announced the – or late July announced the divestiture of Optimal Blue. And I'll start with Empower, just go kind of chronologically here. So, Empower is a loan origination system. We sold that to a company called Constellation Software. We have a loan origination system already. We are the leader in the industry. That would have been something that may have been sort of nice to have, certainly maybe complementary to what we have, but certainly doesn't take away from anything that we're trying to do from that perspective or within that component of the workflow. So, I don't think that that's anything that people should be concerned about in terms of how that impacts the strategic rationale of this deal.

The other area, Optimal Blue, which is what we've gotten some questions on, somewhat understandably, is it's a product and pricing engine, largely bringing the customer, in this case our customer that's on our loan origination system, different prices for different products for different types of lend – or borrowers, I should say. Alongside that, a number of different analytics to kind of help them make the right decision around how they should price a particular product. The unique thing about this is typically when you divest an asset, you are losing access to that asset or your customers are losing access to that asset.

In this case, Optimal Blue is a product or a set of products that have been on something called the ICE Mortgage Technology network for quite a long time and have been on that network through a number of different owners of that asset as well. And that will continue in the future with Constellation, and we get a little bit of a revenue share off of that each time one of our customers uses that product. So, there's a benefit to the ICE business as well that comes with that. That's been there and will continue to be there. But I think more importantly, and to kind of reiterate the point, we – as I said earlier, we as a group, our customers as a group, we originate almost half of the mortgages – or around half of the mortgages in the United States, very important customer set, of course, for anybody that's offering point solutions across that workflow.

And so, we are actually as a group, those – our customers as a group are the largest customer of Optimal Blue. And so, that will be a relationship, I think, will be around for quite some time. And also because they will continue to have access to those products, it doesn't really change anything from us – from our perspective in terms of building that life of loan product and it certainly doesn't change anything from a strategic rationale standpoint in terms of what we're trying to do in the mortgage space. Because again, what we really wanted with this transaction was the servicing business that is coming over and the data and analytics that are coming over, because ultimately that – stitching together those things across the workflow are how we're really going to make an impact and drive change and drive behavioral change over time.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Thank you. I want to spend some time on interest rates. The interest rate environment in the US is different than we've seen in quite some time. Rates are higher than they've been for 20 years and rates have increased at a pace we haven't seen for 50 years. So, I want to sort of go through some of the different businesses and see how the rate environment is impacting ICE. So, maybe starting with data, so ICE hosts a bunch of fixed income datasets and services. How have higher interest rates impacted the data business at ICE, anywhere from the transition of bonds to treasuries?

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Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Sure.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Where have rates impacted ICE?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

So, there's certainly been areas within the fixed income and data services segment that do a little bit better and do a little bit worse within different types of interest rate environments. And so, the last couple of years is actually a great example of this. So, 2020, 2021, certainly we had very, very low interest rates throughout pretty much most – or all of those two years and previously. And so, within that time period, you saw our data businesses, they continued to do pretty well, compounding growth coming off of those data businesses within that fixed income and data services segment.

Less of a contributor would have been our bonds business and our CDS business, although still as a segment overall continuing to grow, continuing to expand margins despite that kind of environment. As we shifted in 2022 and now obviously in 2023 to a higher rate environment, you've seen a little bit of – at least in the outset, some of the end-of-day pricing within our data business, we've had a little bit of a slower sales cycle, certainly in periods where you have a sharp move in interest rates, fixed income managers come under pressure. And that's something that seeped into the sales cycle for us a little bit over the last couple of quarters, although we are starting to see a little bit of a thaw there.

On the flip side of that though, the trading businesses, so our bonds business, bond trading and our CDS clearing business, have done really well. And actually over the last couple of years, we've had double-digit and high single-digit growth over the last couple – two quarters or so in that segment overall and taken the margins from sort of the high-30s to the mid-40s. And so, you've got two dramatically different interest rate environments, but you have very strong growth throughout each one of those and I think continuing this year and into next year as well.

And it's really a – it's sort of a microcosm of ICE overall that you hear us talk about an all-weather name. This is one segment within a bigger business, but it is a testament to that and that we can grow through a lot of different types of macroeconomic environments, which ultimately, at least for me in my seat and certainly also for all of you in your seat as investors and analysts, gives you a little bit more visibility into cash flow streams.

The durability of that cash flow stream is obviously appreciated for someone like me in my seat, and really ultimately and probably most importantly enables us to really invest across the business, not necessarily in that one business or segment, but across the business through cycles in ways that, I think, others who may be vulnerable to cyclical factors less than – or more than we are. And so, I think it really puts us in a better position competitively than if we weren't – we didn't have that all-weather or diversified business model.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

And how about interest rates in the mortgage business? How has that sort of impacted the transaction side of what you're doing in mortgage?

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Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

So, there's definitely been a headwind from that particular macro condition within the mortgage business, obviously, on the transaction side more so than the recurring side. Recurring today is around two-thirds to 70% of the business, but certainly it was smaller when the transaction revenues were a little bit higher. And so, we've seen some fluctuations there for sure that – but at the end of the day, what we weren't – we didn't enter this mortgage market – we didn't enter the mortgage market for one quarter or one year. We really entered it to – because we saw an asset class that was tremendously inefficient that we thought we could apply, again, data and technology to, to improve. And so, this is a long-term bet. We're not caught up in the quarters or the years in that way.

And what I think you all should be thinking about is that mortgages – they're not going anywhere. We're seeing large banks, a lot of other institutions investing in their infrastructure and their technology stacks, coming to us for solutions on how to save money and to be more efficient, and that – mortgages will recover over time. They will – will happen.

And so, we think that this particular moment in time, like we've seen in other markets in other periods where you've seen headwinds such as this – macro headwinds such as this, that you can be a catalyst for behavioral change. And a lot of the conversations that we're having with our customers are around exactly that and thinking about how they can and should adjust their cost structures and think about their business and position their business better for the future, not only for maybe a mortgage market that could look like this for a little bit here, but also for when it does return.

A lot of the contracts, for instance, that we have are multi-year in nature. So, by virtue of that fact, these are people investing in multi-year initiatives. And so, a lot of these customers want to put themselves in a position here today that when things do come back and turn that they're better positioned for it than they were maybe last time, where a lot of times what people did was throw more [ph] people (00:17:21) at those – not really problems, because it was a good market, but in order to help facilitate business in that sense. And so, this time around, I think people are thinking a lot more around automation and efficiencies in that nature that's going to be ultimately helpful, I think.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

So, you talk about ICE as an all-weather firm. How does the acquisition of Black Knight make ICE more all-weather and all-purpose with regard to interest rate sensitivity? So, if Ellie was more transaction-based, Black Knight more recurring, how does the combination look in a volatile interest rate environment?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Sure. I mean, you can see some of the performance in their recent results, which actually include some of the businesses that are a little more cyclical that have been divested in Optimal Blue and Empower. Those tend to have a little more cyclicality to them. And so, what we're now getting here with the acquisition we've made and post-divestiture is a business that actually is a little more resilient and durable than that in that sense. And so, it's about 90% or so recurring revenue in nature. The servicing business in particular isn't going to be as impacted by the swings that you could have in refi volume, tends to be more the purchase – or the new loan coming on the platform that in addition to sort of new products and other enhancements we'll make is a key driver of growth of that business.

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And so, ultimately, what it really brings to us in the mortgage segment and ICE overall is more durability in terms of a revenue stream that, I think, again, with the combination of what we have not just in mortgage but also across ICE, will position us to invest in that asset class and other asset classes, and really again put ourselves in a better competitive position down the road than I think a lot of other firms might be in as a result of that..

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Right. So, finishing up on sort of the interest rate section of my questions, so ICE is a company that's grown through acquisition from its earliest days, and the loan and debt markets have sort of helped finance this growth. So, as we think about ICE being an acquirer in this higher rate environment, how is this likely to impact the outlook for acquisitions for ICE?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

So, it's certainly an important component of how we think about creating value. Return on invested capital is a key metric for us, and within that, of course – or alongside that would be your cost of capital. And certainly, over the years, as we've diversified our business, you've seen our [ph] costs (00:20:02) and become bigger frankly and more durable. You've seen the cost of capital reduced pretty significantly from the teens to now the mid to high single-digits in terms of where we are today. But we've also – we always set sort of a ROIC target – or return on investment target firm-wide of 10% or more. And so, we've always had a buffer between where that was to begin with.

And so, as we look about for acquisitions and we think about that – and frankly, it doesn't just apply to acquisitions, it [ph] implies (00:20:34) to internal projects and organic growth as well in terms of how we think about these things, but that will be certainly a factor. But as long as we're creating value, as long as that return on invested capital and the trajectory of that is improving – certainly when you have deals, there's – your return on invested capital at a firm level will be reduced a little bit in the interim, but over time, that will grow. And as long as you're, over time, know that you can exceed your cost of capital, whether it's a project or an acquisition, you should do that acquisition or you should do that project.

And so, we will think about that. It's certainly part of the equation. But at the moment, I don't think it's something that is prohibitive. What probably does change our focus a little bit at the moment is more that we have taken out some debt to, of course, finance this acquisition of Black Knight. And we do have leverage targets of 3.25 to – of where we would then begin to buy back stock and 3 times where we would be full force buyback. And so, we do have to – we have to pay attention to that, of course, as we're thinking about the next couple of quarters here in terms of paying down the acquisition-related debt and getting to those leverage targets. But that's how we're thinking about things.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Excellent. Thank you. So, digging more into the businesses, maybe starting with data, ASV growth in data was about 3.5% in 2Q 2023, ex Euronext about 4%...

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Yes.

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Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

...lower than sort of the mid single-digits that we've seen from you in the past. Can you talk about what drives that ASV growth back to sort of the mid single-digits and what we can expect in the future for growth in data?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Sure. So, yeah, we've been sort of in that 5% to 6% range since we acquired IDC, which was back in – end of 2015. Nothing's changed on that target in terms of how we're thinking about and what we expect from that business and hope for that business. Now, mid single-digit range would include 4% at least in my book, but – and so, we're towards the lower end of that range or have been this year through the first few quarters. That largely has been driven by two things. So, as I mentioned a little bit earlier, you've certainly had a – you've had a challenging year in fixed income markets last year with the rapid rise in interest rates. That seeped through to the sales cycle, if you will, on our end-of-day pricing business.

That's a key input in terms of what people use when they launch new funds or people just that are involved in the fixed income markets. The engagement, if you will, has been a little slower than it's been in the past, in part because of what we had last year and into this year to some extent. We are seeing some signs of that starting to thaw. Certainly, when you get to points where interest rates are stabilizing or don't seem like they're going to be going up nearly as much as they did in the prior period or last year or so, fixed income becomes a pretty attractive asset class for people and the ecosystem will benefit from that. And I think you're starting to see fund flows and indicators – health indicators such of that – such as that that give us – are encouraging from a sales perspective as we kind of look into the back half of the year.

The other part of it too is we have an index business. It's about $100 million or so in total revenue. It's very much driven by assets under management. And so, of course, when you had some of that downdraft over the last couple quarters, at least the first half of this year and the back half of last year, we had a little bit of an impact on growth as a result of that too. And so, as we kind of get to the second half of this year, some thawing in the sales cycle, some improvement at the very least in the comparable periods from last year on the index side, it should be helpful to the overall growth. It's not a business that goes from 0 to 60 in 2 seconds necessarily. It's a big subscription-based business, which is great, why we love it. But I think you should start to see some improvement there, again, because of those factors which were dragging us down a little bit.

Now, again, the good thing about that segment though, as I mentioned a little bit earlier, is that despite some of those headwinds impacting that fixed income and data business, we've had tailwinds helping our transaction business on the bond side, as I noted, and the CDS business, as I also noted. We've also had some really strong trends across our other data and network service business, where our desktop products are, our feeds products are and then some of our other analytics. And so, we've had really strong growth, high single-digit growth out of that business, which again has been helpful to the overall growth rate from a data services perspective with that segment. And in an overall segment basis, again, I think we had 6% growth through the first half or so, continue to expand margins in that business as well. So, it's not that kind of performance, despite some of the weakness on the data side that we're having from a cyclical perspective, isn't something we're really losing sleep over.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Okay. Energy trading, energy trading has been great. So, maybe to start, why has it been so good?

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Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

I don't think it ever wasn't good. It just had a little bit of a pause last year from some of the unfortunate – very unfortunate events in Ukraine. Certainly, at the outset of that, you had a lot of volatility. We do benefit when things are volatile and that initial uncertainty comes through. But following that, we had capital requirements at our clearing house, we had – that went higher. There were some contracts, our Gasoil contract in particular, that had Russian molecules within it and allowed to be delivered that we had to sort of repurpose and take that out of those contracts in order to reposition in light of sanctions.

And so, as we moved through the year, some of those pressures really started to abate. And as we got to this year, with those pressures having kind of flowed through, I think what you saw was a continuation of the trends that have been propelling that platform over the last number of years. And really at its core is this – people call it an energy transition. I think it's really more of an evolution of energy. And what we've positioned ourselves or how we positioned ourselves in this platform is to be across the world and across all the different sources of energy, so that we're not necessarily picking or choosing, but allowing the customer to really manage the risk in the way they see fit.

And so, what we've seen is just the reemergence, if you will, of those trends over the last number of quarters, and that's really benefited not only the open interest in the volumes, but we've seen strong participation growth across key markets such as our TTF contract, which is really – formerly have been kind of the European benchmark for gas, but now has really become more of the global benchmark for gas. We're seeing some positive trends in our environmental markets as well, and again, I think just a platform that I think can continue to compound like it has over the last number of years.

We've also seen – I mentioned our desktop business a little bit earlier. We've seen strong growth in our desktop, in part because there's an energy component to that desktop that we've invested in over the last number of years, that also is doing really well, helping to drive the very strong growth that we've had in desktops. We're seeing, as you would imagine, alongside that and participation growth, some strong trends in our energy data business as well. So, it does feel like there's more of this, as I said, groundswell kind of reengagement going on within energy as an asset class, and I think it's in part because of the – just the continuation of those secular trends that are underpinning the growth we've seen over the last number of years.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

You mentioned the environmental business. How is the concept of clean energy and renewable energy sort of impacting ICE's business? And how are you adapting to a world that's looking to develop cleaner energy resources?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Yeah. So, this is a theme that ICE – Jeff and ICE have been thinking about for over a decade. And I think the proof is in the acquisitions that we made of both Endex, which is I mentioned earlier TTF benchmark for natural gas, and I'll call it cleaner energy too by the way, benchmark for European natural gas at the time and now has really emerged as kind of the Brent or global benchmark for natural gas; and then, also the Climate Exchange, which also is about – a little over maybe 10 years ago as well that, as you would probably imagine, if you don't know what it is, is our environmental – the foundation for our environmental business. And together, natural gas

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and environmental is about 40% of our total energy revenues for us today, and it's one that's grown into the double-digits over the last five or so years on average, not every single year, but on average.

And so, I think as we're thinking about the future, that's a core foundation that we're going to continue to build on, much like we did with our oil business, where we had Brent crude oil as kind of the foundational or cornerstone contract that we went and built hundreds of other oil contracts that hang off of that that are critical to the commercial customers that are managing risk in this ever-evolving energy workflow that is ever-becoming more complex. And so, I think as this energy evolution continues, those workflows are going to continue to increase in complexity. That's going to require greater risk management, more data, more transparency. And that's what we're going to be positioned to do because we have a platform that really spans the globe and spans the different sources of energy importantly as well.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

And so, maybe transitioning to the mortgage business, ICE's goal has been to digitize the mortgage origination process. You've talked about the cost of originating a mortgage being somewhere in the range of $10,000, 60 days to actually originate. Can you talk about what ICE has been able to do thus far with Ellie in terms of maybe taking that $10,000 cost down? And as you build in Black Knight, where does that go? Where are the cost savings? Where are the [ph] days (00:31:02) savings? And then, if you can – even if you can't give us numbers, how does that savings fall between maybe ICE, your partners and what you would guess would flow to the end consumers?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

So, I think it's early days still, and I think the opportunity for us having – and starting to stitch this together begins with the fact that we've got – a lot of the customers that are going to care about mortgage origination and servicing, they're on the platform already. And the opportunity for us is to create products, whether it's within our data and analytics business or some consumer engagement products – and I'll get into those in a second – to really then take this next step forward in terms of digitizing and collapsing the time and cost it takes to originate what again should be a pretty standard product for the world and the United States citizen in that sense.

And so, I think when we think about the opportunity on the data and analytics side, we've got a couple of these products, we call them analyzers for instance. And what they really are aimed at doing is attacking the different tasks that exist across the origination workflow and automating those tasks. And so, an example of that, for us, would be our income analyzer. So, as you're originating a mortgage, the lender needs to verify that you make us the same amount as you said you make. And they'll look at your W-2, they'll look at your bank statements and they'll do stare-and-compare work. Today, that can take a decent amount of time and often actually has some errors in it and needs to be corrected. And again, it's just more waste or inefficiency, I should say, within the process.

Our analyzers will leverage document readers to extract the relevant information through, do the stare-and-compare work and check that box for you in a fraction of the time with far less in terms of errors, if not any error. And so, again, building out those analyzers across the workflow, across those different tasks is a key part of how we can then collapse the origination time relative to what it is today. The next step of that too is, again, I alluded to it a little bit earlier is on the servicing side, where again connecting that with the origination platform will also enable people to reduce the time it takes to originate a loan by feeding a lot of the data into the origination system and doing a lot of that work for them that they'd otherwise have to do manually.

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And so, I think it's a process that will take some time because we do have to do some work on the technology side to make that happen. But ultimately, we are positioned, I think, unlike really anybody else in the industry, to make that happen. And so, to the extent that there is a dramatic change in time it takes to originate a mortgage and a change in the costs for a mortgage, this is where it's going to happen. And I think it'll be a great thing for the housing industry, particularly on the cost side, over time, because there's a lot of people where that $10,000 cost to originate is an enormous hurdle. And so, being able to kind of take that down and open up that product – mortgage product to more people is going to be a really powerful outcome not only for ICE, but maybe more importantly for people out there in the [ph] US (00:34:28).

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Great. We've got about 10 minutes left. We'll open it up to your questions. Are there any questions?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Keep going.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Okay. Let's keep going. Let's maybe move on to the realm of digital. We're seeing digital currencies, Bitcoin, Ethereum [ph] in crypto (00:35:03) grow broadly. What is the role that ICE wants to have in digital currencies from an exchange perspective, a data perspective and infrastructure perspective?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

So, maybe I'll give a little history on what we've done to help you understand where we were, where we are and where we might be going. But – so, we did make a very – at the time at least a small investment in Coinbase years and years ago, probably about $10 million or so. We – it was about 1% of the company. We wanted to do that to understand the asset class a little bit better. It was a little more nascent than maybe it is today. And we wanted to also importantly understand blockchain and understand potentially how that could be applicable to other areas of our current or existing business. And so, we made that investment. We ended up selling it back in 2021, I think, early 2021, for about $1 billion total, so certainly a good return...

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Towards the peak.

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

...when it went public. Now, that wasn't a comment on Coinbase. Don't get me wrong on that. But strategically, 1% ownership for ICE at least wasn't – that wasn't strategic. And so – and we were also in a mode of wanting to pay down some debt related to the Ellie Mae transaction. So, we made that decision on there, certainly learned a lot about the asset class and actually it was something that helped inform our decision prior to that to build a company called Bakkt, which is now publicly traded on the New York Stock Exchange and one that we really built in-house and later spun out.

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That was a platform designed to be – a platform for digital assets, whether it was a wallet or some trading capabilities, to really be a platform that was backed by a reputable institution, Bakkt in fact was meant to mean that, and really help – if the asset class was going to become institutionalized and bigger, that was going to ultimately be a component of that. And so, we still have a stake of – 68-or-so-percent stake in that company. We don't have control in that sense however though, and that's where we are today. I think it's an asset class that certainly has gone through some challenges in the last couple of quarters. But I think to the extent that it does mature and become more institutionalized, which it seemingly may, Bakkt I think will be a beneficiary of that and we will be rewarded through that, if you will, as that emerges. So, that's really what we're doing on that front, which is certainly more passive than active. But that's how we've been thinking about that asset class.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Okay, great. And then, maybe just wrap up on capital management, maybe update us on the path towards deleveraging. At what point do you feel comfortable sort of buying back stock again? So, what is the path forward on capital management?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Sure. So, alongside the Black Knight transaction, we've taken out a little – close to $10 billion or so of debt in total. We did $5 billion of that back in May of last year at a coupon – blended coupon of around 4.25% with an average maturity of about 13 years. Those were SMR notes. So, there was an option if the deal did break, which it of course didn't, that we would have returned that money at a small premium. And in fact, that money has been sitting in money market funds over the last couple of quarters until we distributed, of course, [ph] alongside (00:38:41) the acquisition and earning more than we were paying in interest expense. So, a nice carry, if you will, for a period of time there on that front. The other component of that was commercial paper and a term loan that we drew down on late in August.

The reason we didn't take out more last May was because we wanted to have a chunk of debt that we could pay down in the interim, as we kind of move towards 3.25 leverage, which is the first milestone. And as we hit 3.25, that's when we would start to buy back – or can start to buy back some stock. And then, we will continue to either buy back stock – or I should say buy back stock and potentially – and pay down debt until we hit the 3 times. And so, once we're at 3, then I think you should expect – absent M&A or things of that nature, that would be the use of all free cash flow. So, similar to the philosophy we've had for a number of years now, where if we're not in acquisition mode, all free cash flow we'll return to shareholders through buybacks and dividends, and dividends which we've grown at a double-digit rate on average since inception in 2014 or so. So, that framework has not changed as we're kind of think about capital allocation.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

And you operate three businesses, so exchanges, data and mortgage. If you think about what the next steps might be in terms of where do you go, could it be anywhere? Are you leaning towards one area or the other based on the growth outlook? You've invested so much in mortgage. Is it time maybe to go back to the exchange side or data or is it whatever the opportunity that seems best at the time?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

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I think there are opportunities across all of our segments, if you want to think about it that way. We – I know we segment it that way, but we do think about it as one business and we really run it as one business and really try to leverage a lot of the technology and potential data that we have in segments for other areas of our business as well, as we've talked about. So, I think there's opportunity across our exchange segment. Energy, of course, particularly within the environmental business, is an area that's still, I think, pretty wide open, and we certainly have a very strong footprint in to build off of. For instance, [ph] we're 90%, 95% (00:41:04) market share of the environmental markets we trade, which again is a great foundation to kind of build new products off of and build data products off of and things of that nature.

Within our data services segment, we're always looking at different types of datasets and anything that we can take and plug into our distribution network and really accelerate that growth. I mean, I think the index business is one of my favorite examples of that, where we purchased that in 2017, almost – not even two years following the acquisition of IDC, and took that index business, which really didn't have any revenue to what is, as I said earlier, $100 million of revenue today, by investing in that business, marrying it and integrating it with the end-of-day pricing business that IDC had, real-time pricing and reference data business that IDC had, and really positioning it far better than it was before.

And so, we're going to look for bolt-on opportunities like that really across all the segments, and really we have the opportunity with mortgage now having certainly a foundational network across the workflow to really invest across all the different businesses and drive growth just like we have in the past. And so, we're excited about that. And in terms of maybe new asset classes, I think right now, I'm focused on paying down some of the debt we've got. But certainly, the framework, as I opened this conversation with, about thinking about asset classes that are inefficient today, that are analogue that can go digital and that we can provide some sort of solution or service to, whether it's through our technology or through our data services and improve them that way, those are things that we'll be interested in and I think we can execute on.

Kenneth B. Worthington

Analyst, JPMorgan Securities LLC

Okay, great. Last chance for a question. It's got to be a short one now. Once, twice. Okay. Thank you very much, Warren.

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

All right.

Kenneth B. Worthington

Analyst, JPMorgan Securities LLC

Thank you, everybody.

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

Thanks, everybody.

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