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Intercontinental Exchange, Inc. (ICE)

Bank of America Securities Financial Services Conference

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CORPORATE PARTICIPANTS

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

OTHER PARTICIPANTS

Craig Siegenthaler
Analyst, BofA Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Craig Siegenthaler
Analyst, BofA Securities, Inc.

We will get started. Thank you all for joining Bank of America's 33rd Annual Financial Services Conference. This is Craig Siegenthaler, North America Head of Diversified Financials, and I'm pleased to introduce Warren Gardiner of Intercontinental Exchange. Warren has served as CFO since May 2021. And for the prior four years, Warren ran ICE's Investor Relations team. Warren, thank you for joining us.

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

Thanks, Craig. Great to be here.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

So, ICE is a leading global futures exchange with a large data and software offering in the fixed income and US residential mortgage markets. In an industry where most of the major competitors are over a century old, ICE is still kind of the new kid on the block with just over 20 years of history. ICE has gone from an idea to an $80-billion futures behemoth by pioneering electronic trading in financial markets. And in addition to futures, with its recent acquisition of Black Knight, it is also the major player in mortgage technology with the largest servicing and the largest origination software offering in the United States.

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QUESTION AND ANSWER SECTION

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

So, Warren, let's get started with – I'd like you to start with strategy. ICE is investing behind multiple secular themes, including analog-to-digital conversions and data. What does your leadership team want your business to look like in 5 to 10 years? And do you expect your profit contribution form exchanges to – what do you expect your profit contribution from exchanges to trend inside of this plan?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Craig, it's a great place to start. And thanks, everybody, for joining here today, too, as well. And so, I think, look, what do hope for in five years? I think we – to put it bluntly, I think we hope for a business that's generating a lot more cash that it is today. And we'll be guided by, largely, the customer demands and customer pain points that exist across all the different areas of the business that we operate in, all the different asset classes that we're in. That's what's gotten us here 25 years later, that's what I would expect us to continue to do and execute on and continue to invest in those areas.

Because, again, we are in – whether it's in the fixed income and data services business or in the mortgage business or even on the exchange side, which, of course, is where our legacy business is and had started, there's a tremendous amount of opportunity to continue to relieve those pain points for our customers because of the foundational networks that we have underpinning those asset classes, too, that we can uniquely do that. And so, as we think about where we're going to go next, a lot of that is really directed on or by where those customers see those issues and see those pain points. And that's where we generate – that's where we direct those dollars and those investment dollars to.

So, it's hard to know exactly what it will exactly look like in 5 to 10 years. But I think we'll be a company that, again, as I said, generating a lot more cash. And I think when you think about maybe the different segments today and what those could look like, I would expect the exchange segment to be – continue to be a very significant contributor. There's a lot of growth outlook or a lot of growth that I think is – there's a lot of potential for growth in that business as we look forward, and I think that I'd expect that to continue. Particularly in areas like energy and financial futures, I think we have a lot of opportunity to continue to develop new products and, again, solve those pain points.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

So, let's talk about long-term growth. ICE has consistently grown EPS every year since its IPO through a combination of top line growth, operating leverage, accretive uses of capital. Internally, how do you think about EPS algo here and how does it demonstrate such a low correlation across cycles?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Well, it demonstrates a low correlation because we've diversified – intentionally diversified to a degree across a lot of different asset classes. Really, the North Star, if you will, is to find the opportunities within asset classes that have a digital or an analog-to-digital conversion opportunity. And so, inefficient asset classes that we can bring

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data – our expertise and data, our expertise and technology towards bringing – making those more transparent and more efficient across the workflow. And so, that ultimately is what – when we look at new opportunities, whether they're new asset classes or they're adjacent asset classes to what we're doing today, that's what we're looking for.

And so, as we started in really the energy space, of course, as you know, and we've evolved into financial futures and cash equities and now fixed income and mortgages, with that intentional diversification comes a revenue stream that is very balanced, obviously, across different asset classes, but also in terms of recurring versus transaction revenues as well, where about half of our revenues are subscription-based in nature. And so, all that comes together to provide this kind of this very resilient and durable revenue and cash flow stream that's enabled us to grow through a lot of different macroeconomic environments.

And sometimes, there are areas of the business that are underperforming a little bit and there are some times where other areas are outperforming, and it all has come together over the years to drive that EPS growth each year that we've been a public company. And so, obviously, that's something I think our shareholders really appreciate. I know, at least from an operating perspective, it's something that we really value from a cash flow perspective because that's what enables us to continue to invest through cycles. And so, I mean, when you think about the mortgage business today, that's obviously from a macro standpoint a bit challenged relative to speaking to what we've seen historically.

But because of the scale and diversification of the cash flow streams that we're able to generate across a lot of areas of ICE, including the mortgage business, frankly, we're able to invest through this cycle. And it will put us in a much better spot when that cycle turns higher than we otherwise would be. And that's really the approach we've taken across all the asset classes we're in. and I think really the true benefit of that diversity and the cash flow stream that we've built over time.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

So, we've watched ICE be active on the acquisition front. You've also done a few dispositions. These acquisitions have really helped build the fixed income and mortgage tech business be what it is today. Now, post the Black Knight acquisition, and I know you're in the process of deleveraging some, how should we think about the forward trajectory of both acquisitions and potential dispositions?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Sure. So, look, I think just because we've delevered and we've got to a point now where we're 3.25 times EBITDA to – gross debt to EBITDA, that doesn't really change the approach that we've had to M&A. We're always looking for opportunities. And to be – to broaden that a little bit, we're always thinking about it from a buy versus build lens. And so, I think one thing that may be a misconception of ICE is that we've really built the business through M&A, which to a degree is very much true, but there's so much of it that has been organic in terms of product development over the years. I mean, you think about our energy business, which really started with a handful of contracts and now today is thousands of contracts, the vast majority of those we built and we did so organically.

And so, when we think about M&A, it's really – it's additive to process. It's a tool that we use to really grow the business over the longer term when we decide that that – the buy versus build equation makes sense in that way. And so, we'll continue to be opportunistic. I think the takeaway, from my perspective at least, from a shareholder perspective, should be, look, we were able to get to 3.25x leverage from 4.3x in a little over a year and put ourselves in a position to obviously continue to return capital to shareholders.

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And obviously, from an integration standpoint, from the Black Knight perspective, we've done a really good job getting synergies out of that business. We think we'll reach our five-year target by year two in terms of cost synergies, which obviously is good from a P&L perspective, but also is a testament to the – how quickly and efficiently we move from an organizational perspective to get this business in a place where we can move forward from an investment perspective, whether that is building things or buying things to expand that network and drive growth longer term, growth over time.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

Warren, the futures business has been generating some really, really strong revenue growth...

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Yeah.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

...the last few years. Now, inside of that, there's a slower growth secular component and probably a very strong cyclical component. How do you sort of dissect the two? And then, what is sort of the view on the long-term growth trajectory of that business? Is it something like nominal GDP plus?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

That's probably a fair place. I mean, we haven't given guidance on what we think that can be. But I think that if you looked historically and if you think about the underpinning trends, whether it's across energy or financial futures, they're all very much intact. And so, I think looking at the past is a good way to gauge how the future may unfold here. And then, of course, each year will be – you'll have some volatility and you'll have some really good years and maybe some lower growth years. But, on average, I think that that's probably a fair way to really think about it.

So, look, we're, we're very much focused on what can we do again to – from a customer perspective, developing new contracts. And again, coming back to the first question, what pain points can we solve, uniquely solve for those customers to drive growth for ourselves over time and really obviously solve problems for them. And so, I think that's been obviously a very strong growth driver for us both on the interest rate side and on the energy side.

And as I look at sitting here in mid-February, both of those complexes, interest rate up well into the double-digits, 18% year-over-year from an open interest perspective, and energy in the double-digits, as well double-digits up year-over-year. So, obviously starting the year after a very strong growth last year, we're off to a pretty good start. So, feel very good about that business and its ability to continue to grow here.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

You built your energy futures business to position around some powerful long-term trends.

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Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Yeah.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

There's clean energy, there's globalization. Initially, the Ukraine conflict didn't help volumes, but since then, you kind of retooled the business and there's a big acceleration after that. What is the outlook for the energy market? And I know this is a tough one, but how long can this really strong growth continue?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Yeah. So, look, I mean, energy as an asset class has been evolving for centuries so I don't think we see that tailwind slowing in any way, shape or form. It's not linear, don't get me wrong, but that's an underpinning – that's underpinning our growth and has been underpinning our growth for quite some time. And if you take a step back and you think about how we developed that platform, it did start with a few power and natural gas contracts. We didn't – we acquired the Brent Index and really started to build out some of these key benchmarks across all the different sources of energy, if you will. And we did so intentionally, so to have that full spectrum of all the different sources of energy. We weren't trying to pick a winner necessarily in that way.

And we also did that across the globe. And we're looking for global benchmarks and trying to develop global products, if you will, and then global product sets. And so, when you think about what it looks like today, we do have a global in – oil business. And the cornerstone of that is our Brent Index, which is really the global benchmark for crude oil moving around the world. Having that cornerstone benchmark has enabled us to develop hundreds of contracts that hang off of those key benchmarks, the locational spreads, product spreads, things of that nature that, without that Brent Index and some of the other key oil benchmarks in there, that I don't know that we'd be able to necessarily do. And so, that's a critical component of growth for us.

And if you think about developing countries around the world, whether it's in Asia or Africa, there's a tremendous demand for oil as an energy source that I think will continue to propel that complex within our energy business for years to come. And so then, if you move to natural gas, we took a similar approach in building out that asset class. And so, we looked at all the success we were having in oil and the approach – the strategic approach we took there of starting with some of these key benchmarks and building around it and acquired several years ago Endex over in the Netherlands, which was where the TTF benchmark was. And that's really emerged from being more of a regional – European regional contract, into a very much like the Brent of natural gas and underpinning a lot of the LNG that's moving around the world today.

And so, it was a similar idea in that, let's get that key benchmark in place and then start to go build around that like. And that's what we've done in the natural gas business. And that's been – certainly, oil is a little bit more mature than natural gas, if you will, so I think there's more runway in that way. But certainly, as you look at the opportunity for us to develop more product around the natural gas complex, I think there's tremendous opportunity, and that's been a kind of really core part of our growth over the last several years, and I think will continue to be a tailwind.

And then, the last component of it is on the environmental side, which is – it's a little around, call it, like around $100 million or so of revenues, roughly speaking. So, a smaller component of a $1.5 billion business today, but certainly an important one that I think has a very long runway for growth where we'll – we can leverage, obviously,

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a unique position that we've had for many years. Again, an investment that we made several years ago to position ourselves as the global risk management platform for energy.

And so, I think as we think about that platform in conjunction with power and natural gas and all the demands that are out there, whether it's AI-driven or whatever, there's a lot of excitement about what that growth potential can be for the energy complex overall. So, I'm happy with the performance so far. And as we kind of again look into the balance of this year and well into the future, this setup seems very good.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

Good. Let's move on to European rates. The volume growth there has been pretty good on the surface, although it looks like there might have been a little bit of share loss to Eurex. So, curious on what was driving that. And then, the other point is US rates have massively outperformed European rates over the last couple years. Why do you think that was?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

So, I don't know that there's really been share loss on that front. You'll certainly see some oscillation, if you will. But I think what we've done on the European rate side is, is really take what was the life platform, which is European and UK interest rates, and expand this into a multi-currency or interest rate platform. And so, that's been the goal of ours, to take that core foundation that – like we've done in other markets and expand into other adjacent opportunities, and leveraging obviously the technology stack that we have to do that and the expertise we have in terms of building out those markets. And so, those are still smaller parts of the offering today. Obviously, SONIA and Euribor are bigger components of it. But we've had some very good success on some of the other areas of our interest rate business that I think can be – certainly play a bigger role in our ability to grow well into the future here.

So, very happy with the performance of that interest rate business. Particularly after a period where we bought – again, that was life came – that was part of the New York Stock Exchange acquisition and also several years ago, that soon after we bought that asset, we entered into a period globally where low interest rates for many, many years, we all remember. That, frankly, depressed some of those volumes and the revenues for quite some time. And so, you look over the last couple years, we started to see some really strong rebound in that as the interest rate backdrop has normalized, and that's been a benefit to the US side and to the European and UK side for us as well. So, we're very pleased with that performance. And I think, assuming we don't go back to that kind of environment of lower for very long, I think that's a product suite for us that can continue to be a key growth driver.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

So, let's move on to New York Stock Exchange.

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Sure.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

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We had three years in a row of really kind of muted listings, sort of the stars have kind of aligned where I think, basically, everyone's expecting a pick up this year. Maybe not 1Q, more 2Q, into 3Q. What's your perspective on that? And if a lot of the companies coming public are tech and healthcare, how is New York Stock Exchange competitive offering to sort of win share within those listings?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Yeah. Well, we've done great on those particular areas over the last couple of years. And we've actually done – while it hasn't been the best backdrop for capital markets over the last few years, one thing that Lynn Martin and the team over at the New York Stock Exchange have done I think a really good job of is getting transfers from not just some of our "US" peers, but globally. And that's been an important part of the story for us, from a growth perspective, was not necessarily sitting there and waiting for the IPO market return, but to work on things that we can have some control on of – in the interim.

And so, good thing about that is, as things start to get better here, we'll see not only the opportunity to continue to drive those in terms of incremental business, but I think also as the capital markets improve. And I agree, we've seen some very encouraging signs of a pick-up in terms of the IPO market and what that can sort of start to look like. And so, we'll see as that kind of move – we move through the year, the backlog and the pipeline is absolutely building and I'm having some good conversations on that front, but that's an area that we will absolutely win our fair share.

And we've really – I think one maybe thing to just keep an eye – pay attention to, to some degree, is when we think about the companies we really want to target from a listing perspective, we're looking for the big blue chip companies. The market cap on the New York Stock Exchange is many multiples more than many of our closest peers. And so, that tends to be where we invest our dollars and time in terms of just generating the higher ROI.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

So, let's move on to equity options. This is a business that where competition continues to intensify. And so, I'm curious on your strategy, is it to sort of optimize earnings in three to five years or is your desire to hold on to share?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Well, the goal across all the business is to optimize cash flow and earnings. And so, that will be the case regardless of what business we're talking about. And that can come through a lot of different strategies at the end of the day. But, from our perspective, we're not looking to get into fights with – over price and things of that nature. We deliver value through the quality of the offering that we're bringing to the customer. And a lot of times, that can mean there's a bit of a premium price in some cases. And we're okay with that, and I think our customers are okay with that because we know we're delivering the value to them that they expect.

And so, when I think about the options business, that's a similar strategy. We have multiple floors. We're building out risk management tools. All these things are coming together to support a price that we charge and, ultimately, why you see the success that we've seen. And so, I think, as we look forward, there are a lot of great trends. And then, the options business has been one that's been, not just for us, I think for everybody, is really seeing that retail adoption grow significantly. And we certainly benefited from that and then that's been a nice tailwind I think can continue. Yeah.

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Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

So, I wanted to move on to the fixed income business. Now, I think some people lose sight of this, but we've been in a quasi-bear market in bonds for about three years. The flow trends, 2022 was actually a record outflow year for fixed income.

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Yeah.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

So, in a business where you're selling data, analytics, execution, et cetera, to bond managers, bond funds, that wasn't a great backdrop, but you still sort of grew through it. Now, more recently, the index business and the execution business have done well, and they're kind of more leading.

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Sure.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

But data analytics kind of more back end loaded. But a backdrop where this record money market AUM is moving off the sidelines should be a nice accelerant for that business. What do you think, Warren?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

I think – well, I think you're starting to see that. And so, yeah, you're right. If you go back a couple of years, that business, when interest rates were moving up from the 10-year sub-1% at one point, and moving up almost several hundred basis points to where we are in a very quick period of time, that was a generational move in interest rates and a very painful one for many fixed income asset managers. But, even through that, we were able to grow, but not really at the growth rate that I think we would expect that you all shareholders would expect either. And so, we were more in the lower-single digit range.

Part of that also was the index business and the beta component of that, if you will, was under some pressure too. And so, as we move into last year, into 2024, we were starting to see some improvement on that front. Interest rates, obviously, are still moving around a little bit, but they're at levels where if fixed income – to your point, Craig, fixed income is a very attractive asset class at these interest rate levels. And so, we've started to see that sales cycle and customer engagement, whether it is on end-of-day pricing or reference data or index business or some of the analytics, start to really improve as people are investing more in that asset class. And so, I think you started to see that increase pick up.

I think, if we can stay around here in terms of interest rates or even if they were moved down a little bit, I think you're in a sweet spot for fixed income as an asset class. And we really have a foundation within our pricing and reference data business, particularly that end-of-day pricing business, where we have 40 years of history across the entire global bond market to create new products and really help serve the investment needs of that fixed

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income community as they launched new funds and need indices and need data. And certainly also on the trading side, where people are increasingly thinking about how they can execute more efficiently and wanting data and reference data and things of that nature to help propel that. We're at the center of that from a fixed income perspective.

And so, I think that that's a business that you don't really see it whip around a whole lot, it tends to be a pretty stable compounder. But I do feel as though there are some trends here that could support some pretty strong growth here as we head into this year and next.

Craig Siegenthaler
Analyst, BofA Securities, Inc.
Q

So, your mortgage tech business is in a really interesting spot right now. It's sort of like, to me, looks like the flip of 2021, which was – I think you had sort of asymmetrical downside potential in transaction fees. You're in a place now where there's really not a lot of downside potential to those fees. We don't know when they're really going to accelerate, but there is a lot of upside potential if you look at...

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.
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Sure.

Craig Siegenthaler
Analyst, BofA Securities, Inc.
Q

...how they trend across the cycle.

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.
A

Yeah.

Craig Siegenthaler
Analyst, BofA Securities, Inc.
Q

But underneath that, there's another sort of trend with like reoccurring fees and kind of what client activity is doing. So, first question is, I know this is also a hard one, but when should we expect transaction fees to really pick up? And if refis don't pick up any time soon, what's sort of the core growth rate of that business if clients – feel any clients aren't doing that well?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.
A

Yeah. And so, it's a fair question. And look, I mean, you sort of led with it and it's hard to know when interest rates are going to go one way or the other or where they're going to ultimately be in tomorrow or six months or nine months or wherever. But that's – and while very aware of the macroeconomic environment, of course, the mortgage business and everyone at ICE very aware of that, we continue to invest in that business and really build out the workflow and address a lot of the inefficiencies that do exist.

And so, you've heard us talk over the last several quarters, a bunch of products that we're investing in and building out to fill some of the holes that exist or some of the inefficiencies that exist in that workflow, whether it's product and pricing engines, certainly various data products, both serving the primary markets and the secondary

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markets as well, where I think we have a really unique opportunity to drive transparency and efficiency in capital markets. Our fixed income and data services business that we're just talking about, there are about 1,000 customers there that take end-of-day MBS pricing from us.

So, we have this captive customer base that obviously very much cares about the mortgage-backed security market that we can sell products into that will help with transparency and things of that nature. And one recent example of that was our Mortality Index that effectively helps with transparency around prepayment trends within MBS securities. And so, again, it's a huge asset class that even, I don't know, [indiscernible] (00:25:18) several years and double-digit years after the financial crisis, still is lacking a lot of transparency that I think we are pretty uniquely able to deliver.

And again, it's an important point, because this is ICE's core expertise. We obviously have a technology and data bent to us. And Ellie Mae and Black Knight, the two mortgage assets that we brought together, have a lot of raw data that coming off those platforms, much like a lot of raw data comes off of our exchanges that we're able to bring together and pool into products and sell into the relevant customer base to drive growth. And so, I think that's a really, frankly, underappreciated opportunity to us. It's maybe more medium- and long-term, but certainly one that I think we're uniquely positioned to execute on.

And so, as I think about what the growth of this business will look like in this kind of environment, and I think there are a lot of ways that new products and things of that nature, that some take some time to get up and running. But certainly, it's a business that I think we can continue to grow through a lot of different macroeconomic environments, even if we don't see a near-term rebound in refis. Yeah, obviously, if that happens, that will be to the benefit of us and probably comes at some pretty attractive incremental margins as well on the transaction side. So, I don't think we need to sit there and wait for it to happen, but certainly it'll be a nice thing to see come through.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

Another question on mortgage tech. We announced the Black Knight deal. It looked pretty exciting that you would have the number one origination software offering and the number one servicing software offering under the same roof, what cross-sell opportunities that would bring. So, maybe kind of highlight the one or two strongest strategic merits for that transaction and how that's played out? And also, any recent data points in terms of banks or mortgage companies that you signed up?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Sure. So, I – look, that's an important part of the strategy for us, was bringing together those two platforms and the customer bases that somewhat were different on those two platforms, and creating a one plus one is three kind of scenario. And so, when I think about what we've done so far, and it's been 16 months, we haven't fully stitched together these tech – pieces of technology quite yet, but we've had some sales success right out of the gates.

And in fact, in terms of our revenue synergies, we're almost halfway through what was a five-year target, only 16 months in. And a lot of that has come from our ability to sell our Encompass product, the loan origination system, to a lot of the larger banks and medium-sized banks that previously and prior to this acquisition, we were having some trouble getting across the finish line to some extent. And so, having that servicing relationship, which is a lot of where this comes from, and frankly having the relationship at a legacy ICE level as well, has been really helpful in terms of people buying into the vision of bringing together these two platforms.

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So, I think, you think about the JPMorgans and Fifth Thirds of the world, those have been really key highlights for us. And again, these are products that we still need to integrate. And they bought into that vision for us. And I think, as we continue to execute on, you'll see more of those. And really, what it ultimately will mean is that the cost to originate a loan and the time in which one can originate a loan will be reduced dramatically because you're able to even do this all in one ecosystem. We're going to reduce the frictions that exist today. And then, over time, I think we have an opportunity to use a lot of what we're building in these primary markets to go after some of the inefficiency – inefficiencies that exist in the secondary and capital markets as well.

And so, I think it's a really unique opportunity that, again, it comes back to just laying the foundation, that core network that we've done by bringing together Ellie Mae and Encompass and MSP at Black Knight to really go and build off, much like we have in all the other asset classes we're in, whether it's energy or fixed income. This is the strategy, this is the blueprint that we apply.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

So, on last year, you announced a unique partnership with MarketAxess. When I...

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

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Yeah.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

And when I think of MarketAxess, I think buy-side credit. When I think of ICE, little more retail muni bonds...

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Sure.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

...like not perfectly, but there is some like non-overlap there, which I think is helpful, and you're sharing protocols, liquidity. So, my question is, how has that been working out and is there an opportunity to do something maybe closer between your two firms in the future?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

So, it's been a good start. And it was just last fall that we announced that partnership. And I think, from our perspective, it's – while it's not been necessarily a needle-moving event at the moment from a revenue perspective, it's been going in the right direction. And so, we've been pleased with that. And it's still early days. I think from that – from the perspective of the ICE bonds business, though, where we've had some real successes in building out capabilities on the institutional corporate side, building out institutional capabilities and engagement and adoption really across a lot of the asset classes in which we're in, in that business. And a lot of our ability to do that has come from some of the other broader ICE relationships that we have, whether it's on the exchange

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side or even in the fixed income and data services business where we, of course, are, as we just talked about, a very large and important data and analytics provider.

And so, leveraging those foundations to kind of drive growth in this – in our ICE bonds business has been an important part of the strategy, and I think one that we're very happy with. I don't think there's anything we need to do to change course or anything along those lines. It's been very good in that way. And I think we'll continue to – along those lines. And to the extent that opportunities and partnerships like this arise, not to say there's anything coming or anything along that line, but those are the opportunities that we're very interested in doing, because you can create a little bit of value with a – in a low risk way with a company that we know well and trust.

Craig Siegenthaler
Analyst, BofA Securities, Inc.
Q

So, artificial intelligence, it's such a big theme.

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.
A

Yeah.

Craig Siegenthaler
Analyst, BofA Securities, Inc.
Q

We're talking about it in every fireside here today. I'm curious, what are some of the ways that ICE is leveraging AI to-date and what are some of the bigger opportunities over five years?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.
A

So, we – AI has been a part of the strategy on the technology side for many, many years. And it was part of our WebICE product and our ICE Chat product, and has been for several years and really helping kind of traders navigate the market and understand trading opportunities and things of that nature. So, it's been something that's been core to what we do on a technology standpoint, again, for a long time. And we are, as that world evolves, really looking for different ways to apply this technology.

And we've certainly seen some interest from people in our connectivity business that are looking to employ AI from a trading strategy perspective, as part of our thought on making investments and meeting demand for our data center capacity that you've heard us talk about a little bit the last couple of quarters. So, I think there's opportunity there for us as well. There – we've applied it from an efficiency and productivity standpoint. Our reference data business, it's significantly helped us reduce data processing times in some cases. And so, that's something that's been important from an efficiency standpoint.

And then, in the mortgage business, we're also looking for ways to increasingly apply those as well, though I think still kind of early days, and there's certainly regulatory constraints around it today that we got to be careful about and thoughtful about. But, certainly an area, too, I think could be ripe for investment and product growth for us ultimately over time. So, there's a lot of different areas of the business, really across the business, that we're thinking about where we can apply AI, whether it's productivity or new products. And we actually – we have a center for excellence when we have a group that is looking for products and opportunities across our business. So, we're not being siloed in terms of how we're thinking about the application of that technology.

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Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

So, this will be my last question. I'll see if there's one in the audience. But I want to bring our conversation back down to the stock level. And Warren, this might even be a better question for Jeffrey Sprecher, given Founder, Chairman...

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

They usually are.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

...CEO, and you own some stock, although not as much stock as the gentleman in the front row here. But what do you think the markets are missing with ICE today? And you did a bunch of investor meetings, you're getting some questions on stuff. What do you think they're underappreciating or overly focusing on today?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Well, look, I think when I think about what ICE is, I think it's a – it should be a core holding. And so, it's kind of a financial stable stalwart, if you will. And then, we've demonstrated the ability to compound through multiple cycles over many, many years at this point. And so, we view it as it is something that can be a core holding in people's portfolio. And so, that gives an opportunity where you – you're going to have certain parts of the business are sometimes doing well, and then there are some times where other parts of business doing really well or not so well. And so, we're going to have that situation. Investors will naturally focus on those.

But I think one thing that I would encourage people to really just take a step back on is look at the diversity of the business across both the subscription side and the transaction component of our business, and really appreciate the ability to grow our cash flows over time and continue to grow our business over time. I think that's one thing that sometimes gets a little bit lost in the weeds at times when we're looking at specific business lines and things of that nature within our reporting. But that's how we think about the business, how we run the business.

And I know Jeff, as we all know, is not a short-term thinker in any way, shape or form, so he's always being thoughtful about what the next thing is and how we can effectively deploy capital to grow well into the future. And that's really what we try to do every day.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

So, you don't think we're too focused on a business that's 15% of your profits and it's at a cyclical trough with massive asymmetrical upside [indiscernible] (00:35:27)...

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

I think there's a lot of upside potential for that business, so I completely understand the focus of it but – and then trying to get your arms around it to some degree, but then maybe there's [indiscernible] (00:35:35).

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Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

Okay. Let me just see if there's a question in the audience, before we wrap it up. Please raise your hand. We got one right here. Please wait for a mic.

Q

Hi, Warren. Thanks for doing this.

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Sure.

Q

So, about a year ago, you guys announced that you were going to throw your hat into the ring for Treasury Central Clearing. I think, at that time, that probably surprised people because LCH, CME, DTCC, the other people...

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Yeah.

Q

...on that space, they already have a big footprint in US rates. So, I guess, a year forward, can you like flesh out the strategy for jumping into that business?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Well, I think – yeah. And so, look, part of our thought process there is we've got a lot of – and again, this comes back to us looking at the current set of infrastructure and technology that we have and thinking about ways, unique ways we can – to leverage that infrastructure and that technology into adjacent opportunities. And that's exactly what this is for us, in that we do obviously have a lot of expertise in technology on the clearing side. The tech – the interest rate or the treasury market as an asset class is an enormous one. And so, we felt as though we did have some interesting expertise and technology that we could leverage into that, in that particular asset class.

So, [indiscernible] (00:36:43) see how this all unfolds from a regulatory standpoint. But I think when you think about what we had there, I think – and certainly the technology we've been able to bring to other markets, I think we can really provide a unique opportunity and option for people that are looking for that. So, we're excited about that. We'll see how that obviously unfolds because the regulatory component of that's going to be obviously pretty critical. But we're working towards that. And again, it's sort of a lower capital, low risk way of building some business and creating a one plus one is three kind of opportunity that you wouldn't be able to do if you didn't have some of that existing infrastructure in the way we can.

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Craig Siegenthaler

Analyst, BofA Securities, Inc.

Great. With that, we are going to wrap it up. Warren, on behalf of all of us at Bank of America, thank you very much for joining us.

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

Thank you, Craig. Thanks, everybody.

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