28-May-2025

Intercontinental Exchange, Inc. (ICE)

Bernstein Strategic Decisions Conference

CORPORATE PARTICIPANTS

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

OTHER PARTICIPANTS

Christian Bolu
Analyst, Autonomous Research

MANAGEMENT DISCUSSION SECTION

Christian Bolu
Analyst, Autonomous Research

Hello. Okay. I think we'll get started here in this session. So good afternoon, everyone. Thanks for joining for our next session here with Intercontinental Exchange. I'm delighted to welcome yet again to the conference, Jeff Sprecher, Founder, Chairman and CEO of ICE. I believe this is the eighth time in a row to attend the conference. So thank you. Hoping to make it 10 in a couple of years. So appreciate you attending the conference.

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

Thank you. It's a really good conference, so I appreciate the invitation to be back year-after-year.

Christian Bolu
Analyst, Autonomous Research

Fantastic. As always as a reminder, you could ask Jeff a question through the pigeonhole system. There should be some QR code on one of the screens that you can use, and I'll try to get that to him towards the end of the conversation.

QUESTION AND ANSWER SECTION

Christian Bolu
Analyst, Autonomous Research
Q

So Jeff, let's just start with what's been the strength of the business over the last couple years actually, which has been the energy business? Revenues, they have almost doubled over the last three years. And there's been a lot of tailwinds, feels like we've seen some sort of slowdown, if you like, since May as we move past the volatility around Liberation Day. Just curious what you've seen in that end market? And what gives you confidence for continued robust growth?

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

Well, it may have slowed from the high volatility of the tariff conversations. But I think month-to-date, we're still, our volumes are up 18% year-over-year. So like still a very healthy double-digit growth against a very good last year, as you've pointed out. So we feel really good about that business. It just – we're well positioned. There's a lot of change in the energy market right now, partly due to trade, partly due to new policy with the US, wanting to drill more and export more, the Middle East somewhat getting away from the OPEC+ commitments, Europe trying to figure out its long-term energy strategy.

People speculating about what may happen with the Russia conflict and whether Russia will be able to reenter the energy markets in the West. All of that is just kind of – and there's an energy transition that still exists today. I mean, as you're hearing about all these data center constructions, the people that are – it's just almost endemic in the conversation that whatever energy powers that is going to be clean. So all of that just feels very healthy as a backdrop to risk management around the energy space.

Christian Bolu
Analyst, Autonomous Research
Q

Okay. Let's dig into a couple of those topics. You mentioned AI, Russia, Ukraine, maybe start with Russia-Ukraine that was clearly a tailwind for your market, supply chains have shifted, to the extent we see any sort of normalization of European, Russian relations. How do you think about growth in your businesses, whether it be Nat gas and tailwinds around TTF or any other businesses?

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

Well, if you recall what happened right after the conflict started, Europe very quickly said, we want to disconnect from Russian gas and Russia energy broadly. And but they didn't actually do it immediately. They announced they wanted to do it. And they actually announced a transition. And some countries haven't ever transitioned off. So it's been a bit of a – I don't know, a gradient and a mixed bag with respect to Russia.

What it caused the market to do is, we had all these Western clients that were trading or hedging or taking delivery of commodity products that said, we don't want Russia. And so the indices, the delivery specifications and what have you were all sort of reoriented to be ex-Russia. And it took a while for that to happen, and it actually depressed some of our trading markets while we were in that transition. But now the market today has developed infrastructure that has – some that has Russia involvement and some that has no Russia involvement.

So I feel like regardless of how the war ends, hopefully ends and the conflict ends and the – and determinations are made by the West on how it wants to deal with Russia. The risk management framework that exists already today can accommodate a range of outcomes to the positive.

Christian Bolu
Analyst, Autonomous Research

Q

Okay. Fair. Did a topic you mentioned was AI and sort of power demand there as we see a surge in electricity demand, are you seeing that in your markets in terms of incremental user demand for your risk management products? Maybe what type of products are these players using?

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

A

Yeah, absolutely. As I mentioned it, it's definitely clean. I mean, we're all hearing these conversations about this. This need for more processing capacity to the point that you hear the hyperscalers saying, we need to build nuclear power plants, but you don't hear anyone saying, we need to build a coal-fired power plant, at least in the West to power these, even as a result of some of the recent meetings in the Middle East that you see. Okay, we're going to build massive centers that have the hyperscalers involved and they're going to be in the Middle East closer to some of the Middle Eastern fuels.

So for us, it still feels like it's a natural gas transition. There will be some renewables around that aspirationally nuclear. I just don't think you're going to see coal in the West. Let me mention one other thing that we're seeing, which is, we run a massive financial services network like our network because – probably because the New York Stock Exchange is an anchor tenant, that is widely dispersed around the world in financial services. We have a network and a data center infrastructure that we run. We are not on the cloud. We're hooked to the cloud. So all of our customers can take our products via the cloud if they want to. But that's kind of the last mile. We really run the network and the data centers. And as you probably see in our data, when you look at it, we're seeing an uptick in the demand for access to our data centers, which we think is driven partly by AI.

I will tell you that we sell co-location space in the data center next to the New York Stock Exchange, next to our energy markets and commodity markets. And latency sensitive traders have that co-location space. We haven't really seen the market put the AI models in the data center. It feels to us like they're – like people that are using AI models are taking the data out of the data center, running their models, coming up with investment decisions, and then bringing them back into the data center.

And so right now, we don't see AI as being latency sensitive. And we partly – and we've seen it in other businesses, including our own – people don't fully trust the answers that are coming out of the AI model. So the AI model may give you an answer, but human beings are then sort of checking and calibrating that answer and not letting the model itself make the investment decisions.

One would think that over time, as the models get better, as the confidence factors grow, that the models themselves will be co-located and will become latency sensitive. So we're building out our infrastructure as if that will happen, because we've had enough conversations with our clients to realize like this is a likely outcome.

Christian Bolu
Analyst, Autonomous Research

Q

One last one on energy. Clearly, ICE has been a winner, both just the growth in energy risk management and relative to peers. But given just all the changes that are happening, whether it is changing LNG trade routes, OPEC+ volatility, benchmarks moving back and forth. You mentioned AI and generally ICE's focus around the commercial customer base. Anything you see around changes in sort of the energy ecosystem that could impact ICE's business long-term?

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

A

Yeah. Two things touching on both the items that I heard you say. One is, you mentioned I'm the Founder of this company, and when we started this company, we didn't know how big the energy market could grow. We didn't think it could grow. We thought it would grow because there was an analog to digital conversion and just giving people more information faster will make more decisions.

And but we thought it would be easy to cover the entire universe of people that would hedge energy. Like, I doubt anyone in this room here that we will ever buy a barrel of WTI or Brent crude. So we kind of thought, we'll reach 100% market share quickly. And the reality is, we keep expanding like new players and participants keep wanting to hedge energy.

And this is 20 years later after digitization. And so I was wrong thinking that we would hit a terminal value. I don't know where it is, but I know, every year we're surprised by the continued growth in access to people, including many people like who are taking energy pricing into decisions that you may be making about correlated asset classes and sort of the computer power that is grabbing energy prices and using that input to make some other decision. And so the distribution keeps growing.

The other thing, which a little bit esoteric, was that the flagship product that we had in year 2001, it was called Brent crude oil. Brent was an oil field in the North Sea off of the coast of the UK. And that oil field, both due to the geology and public policy in the UK, is no longer in existence. So we trade this contract called Brent, but there's no Brent crude in Brent. And so we've had to evolve the contract and we did that by adding other grades of crude, esoteric things, a think called Ekofisk, and Forties, Oseberg. These are other oil fields that were around the North Sea that were premium grades of oil.

Most recently, as you know, [ph] Christian (00:19:35), we've added US West Texas Intermediate crude into that index. And today, about 50% of the time, the Brent Index price is US crude. That is largely exported, largely out of Texas, largely West Texas, fracking oil that makes its way to Houston and then out to sea and is being exported. So a very interesting thing is that this contract that used to be in the North Sea has now sort of moved its center of gravity and has evolved to becoming the global price of oil.

It was always used to hedge global oil, but it is truly the global price of oil. And where WTI, which we also trade that marker is oil in pipelines in Cushing, Oklahoma. The oil pipeline system in the US is – I don't know, a little more stagnant in terms of its – it will probably always be the marker that we'll read about here at the news, like – sounds like the Dow Jones Industrial Average gets talked about. I think we'll always talk about WTI as the oil price, but the global marker really has become Brent and you can see its outsized performance relative to its peers. And that's simply because it's been reconstituted over time by us to be something that it wasn't when we acquired it.

Christian Bolu
Analyst, Autonomous Research

Q

Yeah. Maybe just to follow up. It's very clear that ICE is a very global business and you've benefited from a lot of global trends. And I mean, to your point, Brent essentially is now exported WTI on a world where potentially there's deglobalization, much more localization. Is there a risk to sort of your business model around being global?

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

A

Yeah. Let me tell you something that I've seen from my vantage point that I – that is weird to me. For whatever reason, when we started this business, commodities around the world are traded in US dollars. The price of oil, whether it came from Russia or the North Sea or anywhere else, was always in barrels per – dollar per barrel. And most commodities, corn, soybeans and I don't know, natural gas and you name it, most commodities are actually – physical commodities are actually traded in dollars. And as I mentioned, the distribution is getting bigger, not smaller, and it's becoming more global, not regional. And so dollar business is making its way all over the place. But what's more interesting to me is, we own the New York Stock Exchange and the volume of trading, particularly since COVID has asymptotically taken off.

In April, we were doing 1.3 trillion transactions a day, 1.3 trillion transactions a day on the New York Stock Exchange. Like the systems have scaled to places we never thought they could go. And then you say, well, what – why is that? Well, something has happened, there was obviously a price war over free trading commission. There have been Reddit and Facebook groups and other people that are talking about stocks. There's a younger generation, but there was also the explosion of crypto and which is global. And so you have, let's say, a young person in Korea wanted to buy Bitcoin, and in order to buy Bitcoin, they were maybe buying Circle's USDC or Tether, which is a dollar proxy, right? So you had people – young people in Korea were figuring out how to take a Korean won and convert it to some dollar equivalent. And then a lot of those crypto brokers became securities brokers because these people wanted to own the Magnificent Seven.

And so you now have this kind of global equity and commodity business that is all dollar denominated, and is ubiquitous around the world. And I think about these regional exchanges around the world that are listing – trying to list commodities or securities in their local currency. And it's like, okay, that's kind of interesting, but your addressable market is tiny compared to how we've dollarized – US dollarized the business.

And I can guarantee you after hearing me, you're going to go read an article in the next day or two or three that says, the US dollar is at risk of losing its reserve currency status. And I hear that. And now I look at our own business and it's like really like I don't know anybody that wants to buy oil in Korean won or in – even in euro or in pounds or – I just like what is the alternative when the velocity of commerce, including during a period when we're pulling back on trade and having these trade conversations. The financial markets have just been dollarizing the world and I don't see that it's – I think that all in newers to our – we're fortunate we're headquartered in the US and our product suite is largely dollar based and largely globally distributed. And I just feel like that tailwind is partly what's been driving us and will continue to drive us.

Christian Bolu
Analyst, Autonomous Research

Q

Okay. Let's switch over to the mortgage business. It's one where you've obviously made a significant bet with the LME and the Black Knight deals. By some measures that market is half the size, it was, we did those acquisitions. Is the addressable opportunity that you thought when you bought those deals still there today? Or do you see some need to scale back ambitions?

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

A

Well, actual volume of new loans is down is what you're talking to about largely due to current interest rates and supply issues. But we don't – we haven't seen the TAM. We don't think the TAM has shrunk. And in fact, we've probably grown our TAM because we've acquired Black Knight and entered deeper into the business in terms of servicing mortgages.

And our business has done well. It's outperformed the number of – those kind of numbers because increasing – we had, I think we signed up in the first quarter 20 new clients, who want our underwriting platforms. We have 100 clients that were on our systems that we cross sold to other businesses. And so we do see this adoption of a digital end-to-end ecosystem and moving away from wet signatures on paper documents in the mortgage space and digitizing and standardizing the data sets and storing the data in digital vaults and in transacting with the marketplace digitally as opposed to sending boxes with barcodes on them. And so that's – that trend, if you will, is real. We see it and it's not necessarily related to the underlying transactions. I think we're spring loaded when we still look at the demographics of this millennial population, particularly in the US that is of – that is family formation is going on and wealth has been created. And people want in a work from home environment, they want to live where they can. I think unless you work on Wall Street, they want to live where you can and have an extra room that you can use as an office, that kind of thing. So we still see the pressures that are there, that are just kind of waiting for an equilibration of mortgage rates and supply.

Christian Bolu
Analyst, Autonomous Research

Q

Okay. To your point, you've been – you've got a couple of very marquee clients, whether it's JPMorgan, Fifth Third and recently United Wholesale Mortgage onto the platform. Can you talk about what the adoption curve for these clients look like? What do they typically start with? Ultimately, what are they going for? And then how do you think about timeline to scale monetization? Are we talking about quarters, years kind of love your view?

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

A

Yeah. Well, it's interesting because senior management says, hey, we've got to digitize and we've got to take costs out, it could cost up to $10,000 for the infrastructure to create a new mortgage. It's probably no less than $6,000 and maybe more than $10,000 depends on the company. And so if you could automate that and largely that's a lot of manual labor. And so if you could automate that, you can take those costs out. So senior management is very interested in doing that. What we see though is, it takes time. These are heart and lung transplants for major lenders. And so it takes time to put the system in because it talks to a lot of other systems, often in a lender. And it takes time to train people and it takes time, what is fascinating to me is, it takes time for the people that are using the new systems to feel confident in using the new system. So for example, one of the neat things about this space mortgage is that it's very regulated, right? So there's federal home regulation, there's state regulation, there's county regulation. There are all kinds of regulations locally about permitting and construction and what have you. And so but they're all regulations are written down. So we've been able to take AI models and unlike trying to learn the English language and figure out, George Washington's race or what does a teacher look like, because it depends on what country you're in. In this space, it's kind of a defined language. And so the model has learned the language. So we can tell an underwriter, for example, or somebody working on a mortgage, we say to our clients, we can take an hour's worth of work that you used to do manually and we can have that automated and do it, let's say, in 15 minutes.

And then we go – we deploy this and we go back into the company and the senior manager says, well, wait a minute, we thought we were going to be doing this in 15 minutes down from an hour, and it's actually taken an hour and 15 minutes. And why is that? Well, they do the 15 minute AI model and then people don't trust AI models, just like I was saying before. So then they go do all the manual work and then they compare the manual work to the AI model. And I feel like one of the things that's happening and maybe this is the use of AI broadly is, it's going to take a while before you have enough use cases that you build confidence that you're going to actually let that make a decision where you have your own money at risk.

I feel like you guys all pick stocks and research stocks and what have you. And I've heard people say, oh, you're all going to be out of business. But the reality is like, I don't think any of your companies are going to let a model pick a stock and put the money, put the capital at risk, right? You're going to use the model, maybe help you come up with some ideas and then go validate those ideas yourself. I don't know at what point, and maybe never, but right now...

Christian Bolu
Analyst, Autonomous Research

Q

That's my hope.

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

A

Yeah. Right now the confidence level in AI, I hear these people say, oh, you're never going to hire another computer programmer. I got – I have – we have just under 3,000 engineers working on this mortgage infrastructure. Like it's a massive scalable, huge network infrastructure that we're building. And we use AI to write code, and then we have a human being goes line by line through the damn code before we would ever deploy it. And so is it helpful? Yes. Are we ignoring it? No. Has it given us these benefits where 3,000 engineers are not coming to work tomorrow? No. And will it ever? I don't know. So that's a long-winded way of saying, the deployment is going to be gradual and it's going to have to build confidence.

Christian Bolu
Analyst, Autonomous Research

Q

Yeah. Okay. I would say like your strategy, you talked about building sort of an end-to-end platform vertically integrated across the entire mortgage ecosystem. It feels like Rocket Mortgage is doing something similar, particularly post their recent acquisitions of [ph] Blackstar (00:33:44), Mr. Cooper. Maybe just talk about how you view Rocket as a competitor? What do you see as your greatest differentiation to that company?

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

A

Well, I think if anyone looks at what we're building and says, we have an end-to-end software package, then they're missing what we're trying to do. We're actually building a network, it happens to have software on it. The New York Stock Exchange is a software like, when you're interfacing with NYSE, you're interfacing with the software. When you're buying this Brent crude oil, you're interfacing with a piece of software. It's the value of the New York Stock Exchange is that thousands of counterparties are also attached to it and are using the software simultaneously to develop a bid offer spread.

What we envision with mortgage is, we're simply building a consumer interest rate marketplace and its value will be on the thousands of other mortgage counterparties that are there. And yes, they're going to be using the software to underwrite and manage mortgages. But the reality is, they also need to work with each other. This is not a – the industry in the US has a lot of counterparties and mortgages change hands, and servicing rates change hands, if nothing more than Fannie and Freddie, buy the mortgage and package them into mortgage-backed securities. But those data files, which used to be sent around in boxes, don't need to be sent any – all the digital record is in the network and the permissioning is changed to have access to it. And the overlay to look at the entire industry, these models that I'm talking about, which can now just scan an entire industry are more valuable the bigger the number of market participants.

So I think we will have clients that'll want to have their part of their own tech stack to run part of their proprietary business. But if you want to be a part of the market, then I think you're going to join our network. And that's great. And I think then the value what ICE will have, I'm hoping a few years from now we'll be talking about the mortgage network and not the individual components, which just like we don't talk about. There's 20 software packages running around the New York Stock Exchange, pre-opening auction packages and limit up, limit down packages and all kinds of software that we just take for granted. That's how a market works. And that's where I'm hoping we'll get to in mortgage. It's the network effect that will make it valuable, not the software.

Christian Bolu
Analyst, Autonomous Research
Q

Okay. Just back to your point around ICE's business has outperformed the overall market decline. Part of that has been it feels like an incremental you've been making more money per loan – per closed loan. So just think about it. Just can you talk about pricing power of the business as you sort of build this network over time?

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

Well, as you know, if we take as a pro forma, given that it costs $10,000 to write a mortgage, to the extent, we can automate all that or the bulk of it. And then network, it's – so that the person providing a flood report, the title insurance company, the credit reporting agency, the employer that may send a W2 to the borrower or the condo association documents, everything that goes into people thinking about and underwriting to the extent that's all networked, we're going to take those costs way down. And our view is that people will pay us a portion of that savings in order to do that. And that's the – but the reason that we think they'll come to us to do it is that all the counterparties that I just mentioned and anybody in the industry will be on that network. So I think we have 75,000 notary republics on the network.

I mean, at some point, just it's kind of just a ubiquitous thing that will have saved everybody money, but we'll have made money for our shareholders because we were the ones that took all that cost out on their behalf.

Christian Bolu
Analyst, Autonomous Research
Q

Okay. And then on the mortgage business, obviously, a lot of the capabilities you've acquired them so far. Do you think there are still major parts that you need to do more acquisitions to further the network? Or are we talking more about organic strategy going forward?

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

It's hard to say. First of all, we have all the major pieces. And so that's a good news. We also have thousands of third-parties that are using our network. Why do they use our network? Well, once a major bank – once we're inside the mortgage operation of a major bank, a new market participant who wants to digitally send something around mortgage or take something around mortgage from that major bank, the bank doesn't really want them showing up and talking to their network people and trying to figure out how to get through the firewall. They just say, hook to the ICE network, there's a level of trust, a cyber overlay over us. We're a trusted vendor. So we can manage that to and fro from them.

I tell you that, because it means we see sort of every new startup, we see every change that's going on in terms of what's being digitized and who the preferred vendors are. And all those people that are using our network pay us a fee to have access to it. So there may be bolt-on things where it would be better if we owned it on behalf of the industry and made it an industry utility. And so we have those conversations every day. But it's – those are kind of nice to have other than must have. I also think, we have about 5,000 clients that use us to price their mortgage-backed securities.

So we're very deep into a lot of you in the audience, your companies to the extent you have fixed income platforms. And that audience is looking also for help in organizing and pricing mortgage-backed securities and structures and things that can evolve. There's a big movement or at least a conversation with major lenders to have an offer, a portable mortgage, where you and I, as mortgage holders could take our mortgage when we sold the house, if we like the lender and we like the price. And that means you've got to change the mortgage-backed security that comes out of, how do you do that? Do you substitute collateral? Is there other – is there an economic deal with the MBS holder? Like what – but none of that can be done if we're just shooting boxes around.

So I do think, there are solutions that people are talking about and building entrepreneurs are building and others have in that whole secondary market ecosystem that are interesting that could be acquisition candidates.

Christian Bolu
Analyst, Autonomous Research
Q

Okay. Good stuff. Let me pivot to audience questions because there's quite a few that's come in. Maybe the first one is, some of your peers have made a big push into retail trading, is this a priority for ICE?

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

It's a good question because when Sam Bankman-Fried was around, I got very worried that FTX was going to roll up the market from a retail standpoint and was going to digitize and tokenize the trading of everything, and that we were going to look like a legacy company. And under by law, under US law, we're not allowed to create, for example, NYSE Direct. It's not that we're idiots. We're – we have an unbelievable – like we're known as being financial services technology, but we're not allowed to be a broker dealer for example. It was unclear to us whether crypto was – were securities or not and whether – and so we were prohibited from doing that.

So there was a period in time when I was very nervous about it. And you may recall we were flirting with eBay. We were looking for who has a retail footprint that the regulators would allow us to own. Interestingly enough, our shareholders didn't want us to own it. So we abandoned it. But what we have now, we've kind of solved the problem. And what we have now is, 3,000 lenders that have apps that where consumers are making their mortgage payments or putting out their information to write a home loan. And we're the white label behind all that. Like that's all one system. It's one database that we see. Like we have visibility now into the consumer. They are not our client.

We're a B2B company, but we feel much better, because we feel like we control the technology. And if there are innovative things that need to be done to help the lender, we'll just go build them and we'll push them out. And so we won't be disadvantaged. And it's actually a more natural fit for us. We really are a B2B company. We're really a network infrastructure company. We don't have balance sheet risk and/or lending direct balance sheet. And we don't have those retail customer relationships, but our clients do. And so what we have decided to do is really do better at empowering our clients. And we can do that actually as a result of the mortgage. Like I say, none of you care about having an app that you can buy Brent crude oil, but you will care about having an app where you can make your mortgage payments.

Christian Bolu
Analyst, Autonomous Research
Q

Okay. Another question, ICE has talked about being late to the analog to digital conversion happened in fixed income trading. Is that still an ambition today?

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

We were late. I mean, I'm try to be transparent as to why we're doing what we're doing, and we were late. And also the problem with securities trading, including the New York Stock Exchange, is that we don't own the intellectual property. I spent a fair amount of time talking about the Brent situation. We own that IP. We controlled it. We navigated it. We've invested in it. And it's paid big dividends. The weird thing about stocks and bonds is that that you all – that my – and the audience here create these things and entrepreneurs create them. And then we just are a listing venue, and there are multiple listing venues around. And so over time, since you don't control anything, the IP, it's hard to have any pricing power and prices tends to collapse. We make our money at the New York Stock Exchange because we have listings and because we have data, because we have indices, because we have services that we provide to ETF providers like we make money around the ecosystem. But trading? No.

So we were late, but also not particularly ambitious to try to just bust our way in there because we would be number four in a list of three really good, well known competitors. And the only thing we'd be able to compete on likely is price. And that's just not who we are. Like, we view ourselves as a premium brand, not a discounter. So but I will tell you that if you look at our peers, the bond trading business of our peers in the first quarter are generally flat. A lot of our peers did well because there was a lot of rates trading, interest rate trading. But bonds themselves were generally flat. But our bond business grew 30%.

Why is that? It wasn't because we discounted, it was because we've built a whole bunch of other, and by the way, it grew 30% off a small base. So I don't want to oversell it. But we built an ecosystem around that. That's a pretty high value ecosystem, where we are growing and compounding revenues and building, take in client relationships and market share. And it is sort of backhanding us into a trading business. So I think we found the right place. I think, we – there was a natural place that we would fit and I think we found it.

Christian Bolu
Analyst, Autonomous Research
Q

Okay. So you would've been interested in getting bigger in that say, by acquisition?

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

Well, I never say never, but we like to buy things where we think if you put them on our network or put them into our tech stack, they would grow. And the New York Stock Exchange, as I mentioned, the ecosystem in there, it's multiple times bigger than it was when we bought it in 2013. But it's a completely new tech stack. When we bought New York Stock Exchange, it had 5,000 employees and 1,000 contractors. Today, it has 830. I mean, it's a very different business. So if you say to me, are there businesses out there where you could do a similar put technology and take costs out? Maybe it's going to be a GDP grower, but it's going to – the bottom line is going to grow much faster than that maybe. But I don't know those don't fall off of trees, I mean, you got to a moment in time kind of thing.

Christian Bolu
Analyst, Autonomous Research

Q

Maybe it's a banker, not happy. Can you talk about...

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

A

We've done like – I literally think we've done 50 M&A or capital markets or disposition transactions. There's no banker that we know in our space that doesn't feel like they should hang around our net.

Christian Bolu
Analyst, Autonomous Research

Q

All right. Can you talk – there's another question from the audience by the way. Can you talk about the pipeline for new mortgage deals with large banks? How much of the mortgage market from big banks? How much of the mortgage market is from big banks with, I guess, with internal systems?

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

A

Yeah. There's sort of two things going on. One is, we saw the rise of non-bank lending over the last decade or so. And some of that was constrained by Basel rules. And there's a pretty big conversation about potential changes or relief to those Basel rules to put more lending back into the big banks, or at least give them an opportunity to compete for that lending. And so that's a good thing because those big banks that aren't on our platform are thinking about, okay, maybe there's going to be a different environment here for us and maybe we should invest ahead of it. So those are the kind of conversations we're having with people not on our platform.

And also for the non-banks, they tend to be pretty tech savvy or marketing savvy to build their position and they want to make sure that they stay ahead of the curve. And so we're having a lot of conversation about, I mean, I mentioned that we had 100 cross sells of people that were already on our network that decided to take more services from us. So it feels like there's a brewing competition between new versus old and big versus small and entrepreneurs versus legacy that is fueling an investment cycle that's what you see in our numbers?

Christian Bolu
Analyst, Autonomous Research

Q

Okay. One more I think you've already answered on M&A. I guess, the question is, do you intend to continue with M&A as a future growth strategy? Or do you desire – or do you have a desire and intention to expand your existing businesses?

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

A

So we – when we bought our latest acquisition, Black Knight, we levered up and we worked with the rating agencies and said, we would want to get back to 3 times leverage before we felt like, we were back to a normal environment. And we announced in our last earnings call a few weeks ago that we're at 3.2 times leverage. So we're weaning our way through that leverage. And we announced that we have excess capital now as a result, even being at 3.2 times. So we started our share buybacks.

So we tend to do our own analysis on what's the best use of capital for our shareholders, and if we can deploy it to some business that has a high return on invested capital, we would do it. But if we can't, we also look at our own stock price and say, if we're undervalued in our own mind to our – against our own models, we should be buying our own company.

So generally speaking, you see us do a lot of share buybacks with cash flow, and we only really think about doing M&A when we think that we can get you a higher return on capital through that transaction. We've been pretty disciplined. Our share buyback – I mean, I think we've have pretty much perfect record on share buybacks. We will – look we've grown earnings every single year since we've been a public company. So any share buyback we did in the past looks good. It looks like, we didn't screw up. So as long as we have that track record there, you're going to see us. We'd like to grow the dividend, but you're going to see us lean more into share buybacks, I suspect, unless and until something comes along that was really sexy, that we think we could get you a better return.

Christian Bolu
Analyst, Autonomous Research

Q

Okay. Just quickly, a couple questions on your data – your data business. Just given all the macro and policy uncertainty out there, are you seeing any, I don't know, hesitation in the end markets, any slowing of sales cycles?

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

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Yeah. No, just the opposite, actually. A couple of years ago, maybe 18 months, two years ago, there was a lot of trepidation. Our data business broadly was growing around 5%. I think, last quarter, it was like 7%. So we've actually seen more confidence. We've had more signatures, new signatures. We've had people that we have – we could see like two years ago, people were interested and they would get a contract, but they would kind of drag the execution signature out, like waiting for another quarter, lot of wait and see attitude. We don't feel that now. We feel like we're engaged with people who want data, information, networking services, access to our markets. And they're in real time talking to us about, we need this information. I don't know if it's the AI overlay. I mean, look, we have a lot of proprietary data to feed models and to do valuations and a lot of strategic data that underpin these markets that are foundational. And I don't know it just feels pretty good. Like we have a very nice pipeline and not a lot of hesitation as might be suggested by the question.

Christian Bolu
Analyst, Autonomous Research

Q

Okay. It feels like within data connectivity has been a really – and you alluded to this earlier on, it's been a really source of strong growth. You have a ton of connectivity products, the network, chat, voice. Is there opportunity to unify these platforms and build out a broader communications business over time?

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

A

Yeah, what we're seeing and what we're putting pieces in place. What we're seeing is a demand for unstructured to be organized. So as things, like, we all learn to write cursive in school and there's a whole generation now that is never going to write cursive. I mean, and they type on their phones, and I think the generation behind them is not going to even learn to type on their phones. They're going to talk to their phones, and all that voice data is going to – that unstructured voice data is going to need to be organized, discerned and put in buckets that can be searched and contribute to some kind of cognitive outcome.

And so we've been making a lot of investments in kind of esoteric things so that we don't, we stay at the forefront of the way behavior around financial markets is, we have some joint ventures around turret phones, voice phones. A lot of chat functionality that has robots and AI built into the – to make to do suggestions. Same thing, our help desk has become very automated with AI tools for customer support. We just see that as an evolution of the way the markets are going, partly because of what your – we think your children are going to be doing. And anyway, I'm very proud of the team. Working with unstructured data at scale is a real skill. It is a database skill that we really have. I mean, if you ask what – if I'm buying ICE, what am I buying? You're really buying database expertise coupled with high velocity networking, secure high velocity networking. That's what we do, whether it's a mortgage or the New York Stock Exchange or Brent crude oil or what have you, it's all the underpinnings to the people that built all this is just high velocity database at scale.

Christian Bolu Q
Analyst, Autonomous Research

All right. As we round on the clock here, maybe just a longer-term question here is, the company celebrates 25 – 25th anniversary. Maybe what's your vision for the next decade? And then obviously doing a great job as Founder and CEO. But I'm curious how you're thinking about planning for leadership succession over the next?

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

Yeah. Well, let me start with that. I do think, my successor is somebody in the company. I mean, that's our goal is that we're training the next generation. We've made a lot of – you may have seen, if you follow my company closely, Stuart Williams, who ran our energy business out of Europe, is now in headquarters as the Chief Operating Officer. Ben Jackson, who's our President, who is really overseeing a lot of our business, and as the Chief Operating Officer as well, was running mortgage, Lynn Martin, who ran our data business is now running equities. Chris Edmonds who ran our clearing business is now running data.

So we had our General Counsel of the New York Stock Exchange is now running our clearing business.

So we have moved a lot of people around in order to give them expertise, to keep them engaged, because we don't want to lose anyone, give them new hills to climb, but also to help build a team that can work together to succeed me. So that's my hope is that we would never – that you will know that – you already know the person who will replace me as their goal. But also, I don't know, I just I feel like the business is telling us, where to go and the businesses is still better, faster, cheaper, more widely distributed, more networked, more connectivity with people, more demand for information, more automation in the way information is handled. Like that's just what we do. And it just – I don't know it's like a magnet just keeps pulling us. And fortunately, it's been of all the businesses that you've asked me about, it's pulled all the – our businesses in that direction.

Christian Bolu
Analyst, Autonomous Research

Great. I think with that, we'll end it there. Thank you very much, Jeff, as always.

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

Great. Thank you, Christian. Thank you all.