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Intercontinental Exchange, Inc. (ICE)

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Andrea, and I will be your conference operator today. At this time, I would like to welcome everyone to the Intercontinental Exchange Third Quarter Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

Thank you. Mr. Gardiner, you may begin your conference.

Warren Gardiner
Vice President-Investor Relations, Intercontinental Exchange, Inc.

Thank you. Good morning. ICE's third quarter 2020 earnings release and presentation can be found in the Investors section of theice.com. These items will be archived, and our call will be available for replay.

Today's call may contain forward-looking statements. These statements, that we undertake no obligation to update, represent our current judgment and are subject to risks, assumptions and uncertainties. For a description of the risks that could cause our results to differ materially from those described in forward-looking statements, please refer to our 2019 Form 10-K, third quarter Form 10-Q and other filings with the SEC.

In our earnings supplement, we refer to certain non-GAAP measures including adjusted income, EPS, operating income, operating margin, expenses, effective tax rate and debt-to-adjusted EBITDA. We believe our non-GAAP measures are more reflective of our cash operations and core business performance. You'll find a reconciliation to the equivalent GAAP term in the earnings materials and an explanation of why we deem this information to be meaningful as well as how management uses these measures in our Form 10-Q. When used on this call, net revenue refers to revenue net of transaction-based expenses and adjusted earnings refers to adjusted diluted earnings per share. Throughout this presentation, unless otherwise indicated, references to revenue growth is on a constant currency basis. Please see the explanatory notes on the second page of the earnings supplement for additional details regarding the definition of certain items.

With us on the call today are Jeff Sprecher, Chairman and CEO; Scott Hill, Chief Financial Officer; and Ben Jackson, our President. I'll now turn the call over to Scott.

Scott Anthony Hill

Chief Financial Officer, Intercontinental Exchange, Inc.

Thanks, Warren. Good morning, everyone, and thank you for joining us today. I'll begin on slide 4 with some year-to-date and third quarter highlights. Through the first nine months of 2020, we've generated record revenues, record adjusted operating income and record adjusted earnings per share, all of which have grown double-digit over a record year in 2019. This strong business performance allowed us to return $1.7 billion of capital to our shareholders, 10% more than in the prior year. And importantly, our solid financial position enabled us to invest $11 billion to expand our mortgage network through the acquisition of Ellie Mae.

For the third quarter, we generated earnings per share of $1.03 on net revenues of $1.4 billion. Data services revenues grew to a record $589 million, an increase of 6% versus the prior year. Trading and clearing revenues totaled $711 million. Of note, our total mortgage revenues in the third quarter grew 62% on a pro forma basis versus third quarter a year ago, while ICE's total net revenues pro forma for Ellie Mae grew 7% year-over-year.

Third quarter adjusted operating expenses totaled $611 million, including $29 million related to Ellie Mae. Total expenses would've been roughly $7 million higher if not for some credits we don't expect to repeat in subsequent quarters. As we move into the fourth quarter, we expect marketing expenses to accelerate related to a robust IPO pipeline and the launch of Bakkt's mobile consumer finance app. Combined with a full quarter of Ellie expenses which we expect will contribute around $105 million to $110 million, we expect fourth quarter adjusted operating expenses in the range of $695 million to $705 million.

Now let's move to slide 5 where I'll provide an overview of the performance of our trading and clearing segment. In our commodity markets, lower energy revenues were largely a result of elevated volatility across our markets in the third quarter of last year which related to the September attack on Saudi Arabian oil fields. Importantly, however, energy open interest, which we believe is the best indicator of the long-term strength of our business, is currently up 9% versus a year ago.

In our ags and metals complex, revenues were also lower year-over-year, reflecting continued global trade uncertainty. Within financials, equity index revenue, which is nearly half of our financial futures revenues increased year-over-year. This strength was mitigated by lower levels of interest rate activity due to global interest rates remaining at or near all-time lows.

Moving to our fixed income and credit business. Revenues totaled $191 million in the third quarter. Results were led by ICE Mortgage Technology which continues to benefit from the adoption of digital mortgage solutions, strong refinancing trends and positive buyer and builder sentiment. Revenues from Mortgage Technology totaled $140 million in the third quarter, including $73 million attributable to Ellie Mae. On a pro forma basis, as I mentioned previously, Mortgage Technology revenue increased 62% versus the third quarter of last year.

As we continue to integrate with our new colleagues from Ellie Mae, we're evaluating the metrics and guidance that will be most helpful for investors to understand our Mortgage Technology segment. We look forward to discussing our intentions in February and to sharing new pro forma segment information in early December. For the fourth quarter, I'll note that we currently expect Ellie Mae revenues to be in the range of $220 million to $235 million, representing year-over-year growth of roughly 35% at the midpoint on a pro forma basis.

In our ICE Bonds business, low interest rates continue to weigh heavily on retail and muni trading activity. Importantly though, while still early days, our institutional effort is showing progress. During the third quarter, we continue to see institutional interest in our portfolio trading service with two of the largest ETF sponsors now utilizing our offering. In addition, we continue to add new participants to the ETF Hub network and have completed the integration of our ICE Bonds trading protocol with ICE Fixed Income Select.

Of note, Lynn Martin has now taken on the additional responsibility of the ICE Bonds business which will be led by Pete Borstelmann who also leads our ETF Hub initiative. We believe that the next phase of integration across our unmatched fixed income franchise will lead to greater product innovation and will better position our bond execution platform to serve the vast institutional network of our fixed income data services business.

Turning next to slide 6, I'll discuss our data and listing segment. Third quarter data services revenues increased 6% year-over-year and totaled a record $589 million in the quarter. Growth in pricing and analytics was 5% and was once again driven by customer demand for our suite of pricing and reference data products as well as the strong contribution from our index business which now has over $270 billion of ETF assets tracking our indices.

Desktops and connectivity revenue grew 3% in the quarter, reflecting continued growth in our ICE Global network offset by slower trends at the NYSE. In exchange data and feeds, revenue increased 9% as continued growth in our futures exchange data and our consolidated feeds business was supplemented by the NYSE's share of strong year-over-year growth in industry SIP revenues.

Looking to the fourth quarter, we expect data services revenues to again accelerate sequentially to between $590 million and $595 million. This includes a sequential decline in exchange data offset by continued acceleration in pricing and analytics. Our expectation is supported by accelerating ASV growth which exceeded 5% entering the fourth quarter, up from 4.5% a quarter ago and 4% two quarters ago. As a result, full year data services revenues are now expected to total $2.32 billion, above the midpoint of our original guidance and roughly 5% higher than in 2019.

While the quality of our data products and the breadth of our offering are important drivers of this strong performance, it would not have been possible without the resilience and commitment of our sales team. Despite the challenges of the global pandemic, our team maintained their productivity and focus on serving our customers. Their performance has been critical not only to our success in 2020 but perhaps more importantly has established significant momentum entering 2021.

Shifting to our listings business. Third quarter revenues totaled $111 million. The NYSE helped raise $57 billion of total capital in the third quarter, including $35 billion in IPO proceeds. During the quarter, the NYSE welcomed Palantir and Snowflake and extended our success in the technology sector where we've raised nearly 70% of all technology-related IPO proceeds since acquiring the New York Stock Exchange in 2013.

I'll note in closing that our focus remains on serving our customers and delivering value to our shareholders. The value of our business strategy is once again reflected in open interest growth across our commodities business, the continued and compounding growth of our data offering and the strength of our Mortgage Technology business. This diverse and resilient business model has delivered record revenues, operating income, adjusted EPS and capital returns through the first nine months of 2020. It also enabled us to invest in expanding our mortgage network with the acquisition of Ellie Mae which was accretive in its first month and should continue to add top and bottom line accretion in the fourth quarter, in 2021 and beyond.

I'll be happy to take your questions during Q&A. But for now, I'll hand it to Jeff.

Jeffrey Craig Sprecher

Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

Thank you, Scott, and good morning to everyone on the call. As I begin, I'd like to welcome the Ellie Mae team to their first ICE earnings call. While it's been less than two months since we closed on the acquisition in early September, I've been impressed by the collaboration between our teams during this short time, and I'm confident that the integration of Ellie Mae is off to a very strong start. I believe this is a testament to the talent of our respective employee populations and our shared entrepreneurial cultures.

Similar to our exchanges and fixed income businesses, Ellie Mae integrated into ICE Mortgage Technology as a network, a network that thrives by offering a value proposition that aligns growth with the efficiency gains that we bring to our customers. As we've seen across our network in futures, equities and fixed income, these efficiency gains are best achieved through harnessing unstructured data to create mission-critical information, seamlessly linking participants to that information, and ensuring that the network technology underpinnings are of the highest quality and security. It is the execution of this value proposition that often propels an analog to digital conversion of an industry, and it's the blueprint that we've applied across all of our businesses for over two decades.

Turning now to slide 7. Open interest in our global energy business is currently up 9% year-over-year. And with average daily volume in our flagship Brent crude oil contract up 4% through September, energy revenues in total are up 15%. This growth further contributed to our average annual revenue growth of over 7% since 2015, growth that is a direct result of staying close to our customers, understanding their evolving risk management needs, and expanding the breadth of the content that we offer across our energy network. In our global natural gas markets, revenues were up 27% through the first nine months of 2020 led by the continued growth of LNG and, in particular, our European TTF natural gas benchmark which continues to emerge as the Brent of natural gas. In addition, our environmental markets continue to grow with revenues up 12% year-to-date and up 7% in the third quarter.

The globalization of natural gas and the growing adoption of environmental markets are trends that we began investing in over a decade ago. With our Brent crude oil contracts serving as the cornerstone of our energy network, we've expanded the range of content that we offer to our customers. And today, as a result of organic and inorganic investments, trading on our network is not tied to any one product or any one region. Instead, we have an energy network that delivers comprehensive risk management solutions, provides capital efficiencies, and is positioned to grow alongside the continued evolution of global markets.

Turning you to slide 8. Like what we saw in the commodity markets 20 years ago, there's an analog to digital conversion occurring in the US residential mortgage industry. Amid record levels of mortgage applications, many lenders are finding themselves capacity-constrained and, in some cases, are even offering artificially high interest rates in order to curtail origination volume. From these capacity constraints to social distancing guidelines, this year has revealed many of the pain points and inefficiencies that exist across mortgage origination workflows, and ICE Mortgage Technology is uniquely positioned to address these pain points. We estimate that automating the US residential mortgage workflow is a $10 billion a year addressable market. Critical to our ability to execute on this opportunity is our network, one that in combination with Ellie Mae now spans from customer acquisition all the way through to the secondary market.

Like our network across fixed income, equities and futures, solving for inefficiency requires comprehensive workflow tools, richer datasets, robust analytics and leading technology. As an early example, our ICE Data Services and our ICE Mortgage Technology teams are collaborating to bring to market our first mortgage data product. By combining ICE Data Services' expertise in cleansing and packaging unstructured datasets with the wealth of data that sits in our MERS mortgage database, our customers will soon be able to track and analyze mortgage production trends on a more granular level.

Turning now to slide deck 9, please. Servicing data, which ranges from organizing raw and unstructured data such as with this MERS database example; to our analytics, indices and connectivity solutions across asset classes, is our core competency at ICE, a competency that we apply across all of our businesses. The types of data, information and analytics that we're creating helps our customers transact, manage risk and become more efficient. Coupling the high quality of our data, our technology and the productivity of our sales force, this expertise has been core to building a track record of consistent and compounding growth. Through an array of challenging economic conditions, our data business has proven to be resilient. And at a time when some of our peers have understandably guided to revenue erosion, our platform is seeing an acceleration, having registered its 43rd consecutive quarter, nearly 11 straight years of year-over-year revenue growth.

Turning to slide 10. Through the first nine months of 2020, we've delivered double-digit revenue growth, double-digit operating income growth and double-digit adjusted earnings per share growth. As I mentioned last quarter, we have a vision for ICE to deliver growth in all economic environments. So far, 2020 has been an excellent example of that. It's this vision that distinguishes us not only from our peers but also from numerous other companies that operate outside of the financial services industry. Each individual asset class that we service, whether it's more mature or in the early stages of digital conversion like our mortgage and fixed income businesses, offer unique insights that can be applied to help improve our responses across each of our other asset classes.

As we have expanded over the last two decades, we've become more knowledgeable and we're continuously applying that knowledge to our networks to enhance the value proposition to our customers. It's this approach that has enabled us to grow in each of our 14 years as a public company. So we're excited about the growth opportunities that lie ahead for the balance of this year and excited to extend our track record of earnings growth in 2021 as we continue to work closely with our customers and key industry participants to help them navigate these times while creating value for all of our stakeholders.

So I'd like to thank our customers for their business and their trust in this quarter. I'd also like to thank my colleagues at ICE for their contributions to the strong third quarter results. And again, I'd like to welcome our new colleagues from Ellie Mae. I'll now turn our call back to our moderator, Andrea, to conduct the question-and-answer session until 9:30 Eastern Time.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question comes from the line of Rich Repetto of Piper Sandler. Your line is now open.

Richard Henry Repetto
Analyst, Piper Sandler & Co.

Q

Good morning, Jeff, and good morning, Scott. I guess given your acquisition of Ellie Mae, you've got a much more diverse business as you've grown fixed income. And I guess on a sum of the parts basis, the stock looks inexpensive to us anyway. So my questions are why haven't you chosen to break it out? And I guess Scott did sort of address you're still looking at how to report the segment results. But I guess more importantly, are you concerned over the valuation versus the sum of the parts and how patient will you be over time? I know you just acquired Ellie Mae, but how are you thinking about the sum of the parts given your diversity here now?

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

A

Thanks for the question, Rich. So the first thing we're thinking as Scott mentioned and you alluded to, we're going to do a better job now of presentation so that you and our investors have visibility into how we're thinking about and running our business. Basically, as I think you know since you've covered us for many years, we run network businesses and we run businesses and look for opportunities where the next customer or the next product on that network becomes additive to everyone on the network and continues to compound revenue and earnings growth across that network as a result, and so we're feeling really good right now.

If you look at our commodity business, futures business, we're up – open interest is up 9% year-over-year when the markets are in contango. That's normally a signal or a precursor to volume and revenue growth in the future, so we're very, very happy with the way that business is performing. If you look at our fixed income and data business, you see that ASV which is the future indicator of business is accelerating and compounding. And as we've indicated to you, if you look at our new mortgage network which we're still combining with our other assets, it's double-digit both in subscription and in transaction revenue growth and earnings growth for us in those businesses.

So all of the segments that we're going to be showing you beginning in the first quarter are well-positioned for 2021. And the reason that I like to end my prepared remarks on this graph that shows the long-term earnings growth of the company is that that's how we're running it. And as a result of that mentality that this management team has, a mentality that our job is to deliver EPS growth, we have normally found that the stock will catch up to that growth. And we appreciate that many of the competitors in futures are interest rate and financial-oriented competitors, and they're struggling due to the interest rate environment. Many people in the data space don't have the global footprint that we have to find growth around the world, and many people that are in the mortgage space don't have the market share gains that we've been able to gain, including just in the two months since we've acquired Ellie that is continuing to accelerate that business.

So all those networks are very well-positioned relative to our peer group, and I think that will become apparent over time as this management team delivers bottom line results.

Scott Anthony Hill
Chief Financial Officer, Intercontinental Exchange, Inc.

A

And Jeff, the other thing is that price eventually catches value has demonstrated every share we've ever bought back in our repurchase program a year later has been worth 20% more. And two years later, it's been worth 40% to 50% more, and so it does catch up. I do think that the new segments will help. And as I mentioned in my prepared remarks, we intend in early December to give you all some history with regards to how those segments will look back from 2018 and 2019 and year-to-date so that you'll have that information in early December. And as Jeff said, we'll present the company that way in the fourth quarter.

Operator: Your next question comes from the line of Alex Kramm of UBS. Your line is open.

Alex Kramm
Analyst, UBS Securities LLC

Q

Yeah. Hey, good morning, everyone. Just I guess a quick one on the mortgage side. First of all, I think Ellie came in better than your initial expectations. I know it's a small number, it was only a month, but also 4Q looks pretty robust. So just curious about the near-term outlook, what you're seeing. But related to that, I think the Mortgage Bankers Association recently revised their forecast for activity for next year. So just curious if you're starting to get more comfortable or bullish on the outlook for next year that you've laid out. I know its early days, but just curious about your latest thoughts.

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

Hey, Alex. It's Ben. I'll take that. So a couple things I'll share with you. It's only been a couple of months since we've closed on the business, but a couple of interesting things to share with the group are, number one, I'll share just on the integration front we've made a ton of progress on pulling together our mortgage assets. So the Simplifile business, the MERS business and Ellie Mae, we've been able to pull those businesses together to operate as one very, very quickly. And what enabled us to do that is we knew the Ellie Mae business very well prior to doing this transaction because we had a long-term partnership with them with Simplifile. So we had a good view on what we were going to do. We got to a room quickly in September. We were able to make the decisions that needed to be made to get the business organized correctly. Have made all those decisions, announced them to all the employees, and now we're executing against a single vision and a single strategy.

Two other evidence points I'll give you is it's well-publicized that volumes are strong. Rates are low, millennials are buying. You're seeing people purchasing new homes to get more space, to get a pool, transitioning out of cities into suburbs. We're seeing all that kind of mix. One of the interesting things that not many people appreciate around Ellie Mae is we also have a bit of a forward view on what's happening in that space because we're in the origination space and we see all the way up front in the original application process when somebody is applying for a refinance for the purchase of a new home, we see that 60-plus days earlier than the rest of the market. So we see those trends and I can say from what we see on the platforms that that volumetric aspect of the business continues to be strong and it just affirms our view that we had going into this transaction what the opportunity is with this business.

The third thing I'd point to and the most important thing, and Jeff just touched on in an answer that he just had, that I think is the most important thing to look at is our subscription sales results. So if you – we modeled a view as to where sales of new Encompass seats would be, sales of their artificial intelligence engine called AIQ that's going after the analytics TAM that we have identified in this space, we had a view of where subscription sales would end the year. And I can say that in the last couple of weeks, the business has already hit the subscription sales numbers where we thought they would end the year. The reason that that's important is that as we're hitting those sales results, it helps to firm our view on what we assumed market share growth would be. So they're continuing to gain market share, they're continuing to gain more customers, more users, there's more recurring revenue coming onto the platform, it's a stronger network, and all of this pulls through additional volume. So net-net is we've – everything that we've seen in the two months of owning the business has really firmed our original views.

Operator: Your next question comes from the line of Mike Carrier of Bank of America. Your line is open.

Michael Carrier
Analyst, Bank of America Merrill Lynch

Q

Hi. Good morning and thanks for taking the question. Maybe just one more on Ellie Mae given that it closed and we're doing more work in the area. Can you just provide maybe an update on what you're thinking about the growth opportunities and, more importantly, probably the different components of the revenue growth, meaning you have obviously the volume component but also the adoption and, given the latter, you kind of get more credit in terms of valuation over time that's a little bit more important? And then any other factors or opportunities that you're seeing as you do more work in that area in the market?

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

Hi, Mike. It's Ben. I'll take this one as well. So there's – and thank you for the question. There's a whole bunch of different opportunities for growth in this business which is what gave us conviction that this business can grow really through any volume environment that we see. And we touched when we announced the deal on our ability to capture that $1 billion TAM in the closing and post-close space. So that's where the – we're tying together and creating an e-closing room for the underwriter to digitally connect to the settlement agents on the network that we have across mortgage.

So I won't go into a lot more detail on that one, but I figured, because we went into a lot last time, I figured I'd go into a couple of others that we're capturing that I think are underappreciated. So first, we identified that there's a $4 billion TAM in front of us in just origination and processing, and we're obviously very well-positioned there. The business is touching almost 50% of US mortgages that are coming through the process, refi and purchases. And as I just mentioned, the sales results that we've just seen has just firmed our view on the ability to continue to gain market share in that space.

The second thing in that origination and processing TAM is really about our network. And I don't know that people really appreciate the fact that the business, our business here has the largest mortgage network in the US. So we interconnect hundreds and hundreds of service providers to lenders, and this network is very well-established. All that connectivity exists and there's significant benefits that the lenders themselves can receive from utilizing and buying services from those third party providers over our network yet it's underutilized. So the types of benefits that lenders get from ordering services off of our network is that it's a very efficient process.

If you're using the Encompass system and you order third party services, that ordering process is automated because we know in the workflow when you're going to order a credit report, when you're going to order a flood report. All of that is automated and, more importantly, all of the content that comes from that third party is digitally sent to you so that you can consume it, you can easily move it around, you can analyze it, you can actually do things with it. The other way of ordering these services outside of the network is you'd have to manually go out and select vendors, you have to manually procure the information. You're going to get back scanned documents, PDFs with data that you can't really do anything with. You have to have extra steps of manually re-keying information.

So today, vendors are really starting to see the benefits of ordering services off of our network. And for the benefit that we're providing to lenders as well as the benefit that we're providing to all these third party data providers, we receive a revenue share for that. And we're seeing this opportunity in front of us that we're starting to capture it, and that part is accelerating substantially.

The other piece that I'll touch on is the data and analytics side. We've had a few questions since we announced this deal on this. And the one I want to focus on is really analytics and what we're executing against today here against another – what we've identified as a $4 billion TAM. So we've identified that an average origination fee costs around $8,000. Of that, time studies that we've done estimate that at least $5,200 of that $8,000 is just manual processing, and technology costs are well less than $500. In the year 2020, you'd think that that would almost be the reverse, that manual processing would be a lot less and technology somewhat more. Our time studies have shown that at least half, so call it $2,600 of that manual processing could and should be automated with simple tools to be able to analyze and take away a lot of the stare-and-compare work that happens.

So this isn't just a dream; we're actually executing on this. This is a TAM that we're accomplishing and capturing when we talk about that AIQ business, a business called Capsilon that Ellie Mae acquired in the last couple of years. This business goes through for our customers today and captures documents, it recognizes the data on those documents, extracts it. And most importantly, we apply analyzers to that data, analyzers that today for our lenders can go through and automate the process of when you're looking at a credit report to make sure that the social security numbers match, the date of birth matches, the date of the credit report is within the window that the lender was expecting that credit report to be to approve the loan, the score that the individual had on that credit report matches the qualification criteria for the product that that consumer is applying for.

All of this is happening today and we're capturing this opportunity, and it's a significant growth opportunity in that data and analytics space. And we see it already coming through in terms of AIQ sales that have happened this year on the platform and just in the last two months of owning the business; we're seeing these analyzers getting picked up from our existing customer base. So those are two new areas that I'd say to focus on going forward as other areas of growth for this business.

Operator: Your next question comes from the line of Ken Worthington of JPMorgan. Your line is open.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning and thanks for taking my question. It looks like we're seeing further pressure to migrate away from LIBOR in the US. Maybe first, can you remind us if there's any impact on this transition away from LIBOR in terms of data revenue, benchmark service revenue? I don't think there's much. But really, can you talk about the transition to SONIA in terms of trading in Europe and if there's any opportunities in this transition to either grow trading or grow data or should we really expect this just to be a swap from EURIBOR? Thanks.

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

A

Yeah. It's a good question. We're right – we're in the middle of a transition so there's a bit of a fog, if you will, as to the timing of this transition. Obviously, regulators are pushing, but there are a lot of underlying business issues that have to get dealt with in the transition. So it's hard to know a final date other than the trend is there. The sale of LIBOR as an index for us is of de minimis revenue, and there is a question as to how long LIBOR may survive after the industry does move to SONIA in order to pick up legacy business that just couldn't be transitioned over. So LIBOR may exist for some time and it's hard to know what that time is because it's so pervasive around the world. And there are many – there are other IBORs by the way, LIBOR being dollar LIBOR, but there are a lot of other IBORs, many of which we're the calculation agent of which have the same issues.

The transition to actually trading SONIA has accelerated. Our market share is very strong. We're probably north of 70% market share of all the trading in SONIA. And so the market is getting comfortable with simultaneously trading SONIA-based futures and LIBOR-based futures. And so we feel very, very comfortable and confident with where we've positioned our trading activities to be able to provide a bridge. And if the two survive side-by-side for some time, we'll be a beneficiary of that as well.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

But ultimately, it's a straight swap from one to the other? There's not anything – anywhere to really go from this transition?

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

A

Well, the one area that is really under discussion is the small and mid-size regional banks, and a whole range of products that are not necessarily covered by is the swaps or hedged with swaps. And so what you're seeing is that having worked with the industry to come up with a common rule set on how the transition can go, and you see the sort of institutional market coming up with game plans. But in the small and widely dispersed market, they're not in the swaps business and they've got – there are many people that have 30-year agreements that have the word LIBOR in it.

And so we have been developing an alternative to LIBOR called the Bank Yield Index which we published. We've been publishing it weekly and people have been doing – academics have been doing white papers on it to see how it tracks a credit-based environment. And we've now accelerated the publishing of that daily to create more data points, by the way, for analysis. And it's very possible that there could be a transition away from LIBOR for the credit-based part of the industry that is not SONIA; and if so, we have a very, very good benchmark that we're working on. That'll be up to regulators and a broad industry adoption if that happens, but there certainly is a lot of work going on underneath to try to at least have a viable alternative should that need rise.

Scott Anthony Hill
Chief Financial Officer, Intercontinental Exchange, Inc.

A

And Ken, you've seen historically as you transition from one contract definition to a similar but different one, the impact tends to be as you near that transition point, you see a decline in the trading of the old and everyone's not quite moved into the new. And the good news for us is interest rates only make up about 4% of our revenue, so it's a relatively small impact regardless.

Operator: Your next question comes from the line of Jeremy Campbell of Barclays. Your line is open.

Jeremy Campbell
Analyst, Barclays Capital, Inc.

Q

Hey. Thanks. Maybe just a follow-up to Mike's question a little earlier around the mortgage TAM and the growth. Ben, you gave some really good color around the opportunity to capture TAM from your end-to-end suite of solutions now that Ellie is in the fold. Just wondering as you guys look at your solutions right now, are there any additional white spaces you'd ideally like to fill in in mortgage land either to build organically or bolt-on inorganically that might make the holistic solution a little more compelling to the originator with whom you don't currently have a partnership or to augment the data and analytics product for Lynn's team to sell? There just seems to be some additional properties out there that could be available, but not sure if any of that fits within your vision.

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.
A

Thanks, Jeremy. And what I can say there is that we feel good about the position that we're at with the assets that we have. I mean, we literally – our network touches every single part and aspect of a loan, all the way from you as the consumer are thinking about it, you're going out and doing your research and you're touching the point-of-sale systems, to engagement between that individual customer and the lender that they've chosen to do that loan with, the digitization of all the documents and helping to automate that origination process now interconnecting the originator to the settlement agent and electronifying the close. So we have all the right pieces. As I mentioned, we focused very, very early on on just making sure that we got the integration of these businesses nailed and executing on that, and we did it very, very quickly to get the team all operating as one.

And the other thing I'd point out is that a lot of the work we're talking about of pulling the networks together, of creating a digital e-closing room, that didn't just start now. It started in the partnership that we forged with Ellie Mae back when we bought Simplifile, and Simplifile also had relationships with them that predated that, so a lot of this work is already underway. All that said, as I had mentioned in an answer earlier, I think it's underappreciated a little bit about how strong that network is that we have, having the largest network in the US mortgage origination space. So with that position, we also see what all the third party vendors doing, what are the quality of the services that they provide. And we're in a unique position that if there is bolt-on opportunities that we think we can accelerate growth for entities by having them more directly part of our business as a bolt-on opportunity for us, we would evaluate those.

Operator: Your next question comes from the line of Dan Shannon (sic) [Dan Fannon] of Jefferies. Please go ahead.

Daniel T. Fannon
Analyst, Jefferies LLC
Q

Hey, good morning. My question is on the data business. You came in above your guidance. You talked about some of the trends in your prepared remarks, Scott. But I was hoping you could kind of expand upon where the strength is coming from. And you've historically talked about it on a longer-dated time period in terms of the outlook, so maybe if you could give us a look into next year, how that business is trending.

Scott Anthony Hill
Chief Financial Officer, Intercontinental Exchange, Inc.
A

Sure. Thanks for the question, Dan. Yeah. So look, the beat in the quarter was a couple things. Clearly, as I mentioned in my prepared remarks, the SIP revenues related to the significant retail activity in the cash equities markets contributed to that. But the one that I've just been really happy with this year has been the pricing and analytics business, that in a world where our sales team has been [indiscernible] (00:42:40) just like everyone else in terms of travel, ability to meet face-to-face, they're still crushing it. They've held productivity level versus the prior year. They're on track to achieve I think it's like 98% or 99% of their signings objective. And for that business, which you'll remember I said we'll grow 5% to 6% coming into the year which was in February before I even knew what COVID was, is going to grow 5% this year. And the growth has accelerated each quarter and it's going to grow again in the fourth quarter and likely will be around 6% growth in the fourth quarter.

So that business is doing phenomenally well, and it's a lot of factors. As people continue to consume more of our prices, as consolidation of vendors happen, we can be a one-stop shop for people in their data needs. Whether it's our data or feeds or network or all of that, we can sell it. Our index is, as I mentioned in my prepared remarks, we're now up to $270 billion worth of assets that track our largely fixed income indices, so it's that pricing and analytics business that I'm so happy with. And then you asked about 2021. And while I won't give you a dollar guide, I will point you to an ASV that was 4% two quarters ago and is above 5% now and will trend higher in the fourth quarter. And so to me, that's – I mean, again, as you know, today that's 90% of our future revenue. As we roll into the new segment review, that ASV will effectively be 100% of the forward revenue. And so if you've got an ASV number today that's sitting between 5% and 6%, that says you're set up very well to deliver that type of revenue growth next year.

So we feel very good about the execution of that business, very good about how the sales team has performed. I also mentioned coming into the year the fact that we were hiring into the growth opportunities we saw, and we've done that hiring. But in a world where people aren't in the office, getting those – that part of the team up to speed has been more of a challenge. The good news though is that means we've had a good year this year without really a lot of productivity from the new folk. And as we move into next year, they'll join us at the high productivity levels that I think can give us an added boost. So that business right now is hitting on all cylinders, and we feel very good about not just the fourth quarter but about 2021.

Daniel T. Fannon
Analyst, Jefferies LLC

Q

Thank you.

Operator: Your next question comes from the line of Ari Ghosh of Credit Suisse. Your line is open.

Ari Ghosh
Analyst, Credit Suisse Securities (USA) LLC

Q

Hey. Good morning, everyone. Ben, I guess just another one on the Mortgage Tech business. And again, appreciate all the color thus far. So the deal clearly makes a lot of sense just given the growth profile and structural tailwinds, already seeing really nice contribution from it from day one. But some of the larger competitors in the space have also been talking about the strength of their digital capabilities and the network effect that they see as well. So was just hoping you could talk a little bit about specific areas where you're the most differentiated versus some of the larger players. Is it more on the unstructured data side, your digitalization efforts on the workflow or your network effect or is there something else? So just looking to see areas you most differentiate.

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

Sure. Thank you for that. I'd say the major areas where we're different is, I mean, if you just look at industry assessments of market shares, and those market shares reflect the strength of the network that you have, the businesses that we have have by far the largest network that stretches all the way from the inception of the origination all the way through to closing. And I can't stress that enough, that you need to think about that entire ecosystem from the inception of you thinking about a loan all the way through to documents get filed at a county courthouse to consummate a transaction between a buyer and a seller. So it's the strength of that network is first and foremost one of the major differentiators that we have.

Underneath that network, so not only on the origination side do we have by far a very big market lead in terms of the loans that we touch in the US trending – getting up to close to 50%, but also in the closing and post-close space with assets like Simplifile and MERS. Simplifile, we've used the phrase that they went out and paved the dirt road. So they went out and literally did the hard work of digitizing and digitally connecting thousands and thousands of counties around the US to thousands and thousands of attorneys that are in the middle of /settlement agents that are in the middle of closing real estate transactions. The reason that Ellie Mae, with such a strong network, came and did a partnership with Simplifile a few years ago is they acknowledged and realized that the piece of the network that Ellie Mae did not have and the only entity that really had a digital highway and a digital network to electronically close transactions was Simplifile. So that's a lot of the real differentiator.

The other piece I'd say underneath the network that's underappreciated is the datasets that we have that are very unique within that business. So one of the things that Simplifile has by digitizing that network of all these settlement agents and all these counties, it is the only real repository in the US that knows exactly what the settlement fees are, what the settlement requires – what the settlement requirements are for every real estate, just about every real estate transaction that happened in the US. With that type of information, you can use that information, pull it forward into the origination process and reduce a substantial amount of errors in the processing of loans by sharing that information very early on, digitally sharing it, and then also including it with the analyzers that I was speaking about earlier to be able to compare what are the requirements that this county has on closing a particular transaction versus what's getting pulled together and consummated in the origination package of that loan. So those are two of the main areas I would highlight as just substantial head starts and differentiators that we have that are very difficult for others to replicate.

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

This is Jeff. And one of the things that we really liked about the business when we started to think about putting together our network, our existing network and the Ellie Mae network was that we've opened that network. And so many of these companies that you may view as competitors use parts of our network in order to offer their services. Because our network is so comprehensive and because it's open and you can tick off, you can join the network at the very beginning or all along the chain that we, to a certain degree, benefit from the entire growth in the industry as partners, coopetition if you will with many others in the industry. So that model is very compelling and our goal is really, as I've said on the final slide that we land on, is to really just grow our earnings per share, not necessarily to completely crush every competitor.

Operator: Your next question comes from Brian Bedell of Deutsche Bank. Your line is open.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.
Q

Great. Thanks. Good morning, folks. Thanks for taking my question. Just one quick cleanup on the tax rate outlook for 4Q. I don't know if I missed that one, but the bigger question is on – another one on the mortgage business of course. Just I guess first of all, Scott, if you can just reiterate the 8% to 10% growth on the Ellie Mae business that you've stated in the past for 2021 even with the refi headwinds. And then I guess more importantly, in thinking about the organic growth of that business from obviously the large TAMs in the processing side but also the organic growth from existing customers using the network, how should we sort of think about those two different elements contributing?

I do think using that organic growth data or as you talk about this segment and you carve it out into next year, that would definitely be something that would be helpful for the valuation so we could isolate that. And then the ability to scale that on that cost base that you've outlined for 4Q as we think of 2021. Not to give expense guidance specifically right now on that, but how should we think about scaling the growth of the mortgage business on that existing cost base?

Scott Anthony Hill
Chief Financial Officer, Intercontinental Exchange, Inc.

A

[indiscernible] (00:51:50) So I think that was three questions. So the tax rate will be in the 22% to 24% guide. That's been consistent for the year other than the third quarter as we had to revert the UK back to 19%. So we would expect the fourth quarter will go back to kind of where we started the year. Obviously, as we roll Ellie in, that's a US-based business that'll put a lot of upward pressure on the tax rate and be subject to whatever happens in the election. But even that, if you're modeling, I don't see a reason right now to move away from the 22% to 24%.

I'm going to do the expense first. I think one of the things we like about this mortgage business is similar to our other businesses, it is scalable in the sense of the incremental dollars generate good incremental margins. That notwithstanding, we are in a place where we are making a number of investments as Ben alluded to in his answers with regards to building an on e-closing room as one really good example. And so if you're looking at the fourth quarter, I think you need to take a couple of things into account if you want to use that as a run rate. Number one, for purchase accounting, we have to rebuild the CapEx and cap labor. And so with that run rate, you should probably throw another $20 million on top of that.

And then I would throw the $20 million to $25 million of investments we're going to be making to not only grow the business next year but more importantly, two months ago on the deal call, we said we thought it was a business that could grow 8% to 10% over a decade. And so we'll make some investments, again that notwithstanding. You do that math and you'll see that it will still be very accretive to the bottom line. I think in the fourth quarter alone, it's going to be 7% accretive. So that's kind of on the expense side.

I don't know that today is the day we'd say a whole lot more in terms of our guide on the revenue line. You asked us, still feel good about the 8% to 10%? We do for all the reasons Ben alluded to. As we move forward, we mentioned going in that we expected refi to go back. Someone in an earlier question said that the industry assessments were improving, but they're really just improving closer to where we already were. Those estimates tend to be a little bit pessimistic. So again, we're only two months away from closing the deal and having the call with you all. Ben has given a lot of color on why we love this business and why we believe it absolutely was the right investment. And so as I sit here today two months later, I'm absolutely 100% still confident that it can grow the way we talked about.

Operator: [Operator Instructions] Your next question comes from Alex Blostein of Goldman Sachs. Your line is open.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks. Good morning, everybody. Maybe shifting gears a little bit. I was hoping we can touch on you guys' credit trading business. I believe towards the end of the year, you guys talked about maybe some sort of a full integration between ETF Hub and some of the trading venues that you've acquired. So maybe talk a little bit about what's the kind of overall revenue contribution from those businesses today, how do you think about that evolving over the next 12 months or so because I think you guys made some investments there over the last 12 months.

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

Thanks, Alex. This is Ben. And as Scott had mentioned in the question earlier around the re-segmentation of the business that will come in the first half of December, that's when we're going to start giving more color on the revenue aspect of this, so that answers one part of your question. On the other side of it just to give you some flavor of continued strides that we're making on the institutional space, the strategy really has three legs to it. So first is the automation of extremely complicated manual workflows in a space that's growing like crazy which we've talked about a lot which is that primary trading area of ETF creation/redemption. That's our ETF Hub project.

The second leg of the strategy I talked about on our last earnings call was the launch of ICE Select. And what ICE Select is is it's an aggregation engine that we've created that pulls together all of our protocols, so the click-to-trade protocols, our auction protocols and our RFQ protocols all into one. And more importantly, it also added all of our institutional analytics and pricing content that all the buy-side and all the sell-side customers utilize today for understanding what the fair valuation of the instruments are that they're trading. And Scott had mentioned that as part of this realignment, we're really pulling together our execution venues in fixed income very closely aligned to our fixed income data business under Lynn. The last piece is we also – I also mentioned on the last earnings call that we've now connected ICE Select to ETF Hub and we've also connected ICE Select to third party OMS systems such as Aladdin.

The progress that we've made since that last earnings call has been significant. So we've added another [indiscernible] (00:57:14) in Citigroup onto our ETF Hub network. We've added four more market makers, significant market makers so we now have a total of seven market makers in there that we just announced in the last couple of days. We now have six issuers that are part of our advisory committee on ETF Hub so that – the number of issuers is expanding that are helping to give us their requirements that we would need to cover to be able to add them onto the ETF Hub in addition to BlackRock. And we had market makers not only testing but now they're executing going into the secondary market to procure bonds via ICE Select. In the last couple of weeks, we've had some market makers going and using our secondary platforms in ICE Select to go out and procure bonds, procure the basket that then they negotiate in our primary trading venue, being ETF Hub, to swap that basket of bonds for a share of an ETF.

And the last bit of progress that we've made is that we have had multiple portfolio auctions executed on our platform by two of the largest issuers, two of the largest asset managers in the space in just the past couple of weeks. So a lot of the last – you've heard me talk on a number of these earnings calls and a lot of it has been putting all the infrastructure in place, laying a lot of all the rails and groundwork that's needed to be done to pull all this together. It's together and we're starting to see signs that some green shoots are starting to develop here.

Operator: There are no further questions at this time. Mr. Sprecher, I turn the call back over to you.

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

Thank you, Andrea, for moderating and thank all of you for joining us this morning. We look forward to speaking to you again soon. And in the meantime, I guess I hope that you and your loved ones stay safe and stay healthy. And with that, I hope you'll have a great day. Thank you.

Operator: This concludes today's conference call. You may now disconnect.