29-Apr-2021

Intercontinental Exchange, Inc. (ICE)

Q1 2021 Earnings Call

Copyright © 2001-2021 FactSet CallStreet, LLC

CORPORATE PARTICIPANTS

Mary Caroline O'Neal
Director, Investor Relations, Intercontinental Exchange, Inc.

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

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer, Intercontinental Exchange Inc.; Chairman, New York Stock Exchange, Intercontinental Exchange, Inc.

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

OTHER PARTICIPANTS

Richard Henry Repetto
Analyst, Piper Sandler & Co.

Michael Carrier
Analyst, Bank of America Merrill Lynch

Kenneth Hill
Analyst, Loop Capital Markets

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Ari Ghosh
Analyst, Credit Suisse Securities (USA) LLC

Christopher Harris
Analyst, Wells Fargo Securities LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the ICE First Quarter 2021 Earnings Conference Call and Webcast. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Mary Caroline O'Neal, Director of Investor Relations. Please go ahead.

Mary Caroline O'Neal
Director, Investor Relations, Intercontinental Exchange, Inc.

Good morning. ICE's first quarter 2021 earnings release and presentation can be found in the Investors section of the ice.com. These items will be archived and our call will be available for replay.

Today's call may contain forward-looking statements. These statements, which 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 2020 Form 10-K, first quarter Form 10-Q and other filings with the SEC.

In our earnings supplement, we refer to certain non-GAAP measures. We believe our non-GAAP measures are more reflective of our cash operations and core business performance. You'll find a reconciliation to the

Copyright © 2001-2021 FactSet CallStreet, LLC

equivalent GAAP term in the earnings materials. 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 are 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; Warren Gardiner, Incoming Chief Financial Officer; Ben Jackson, President; and Lynn Martin, President of Fixed Income and Data Services.

I'll now turn the call over to Scott.

Scott Anthony Hill

Chief Financial Officer, Intercontinental Exchange, Inc.

Thanks, Mary Caroline. Congratulations on your new role, truly well deserved. Good morning to everyone, and thank you for joining us today. I'll begin on slide 4 with some key highlights from our first quarter results.

First quarter revenues, operating income, adjusted net income and adjusted earnings per share were all the best in the history of our company. Adjusted earnings per share of $1.34 increased 7% compared to our previous record of $1.25 which we achieved in last year's first quarter. Record total first quarter revenues of $1.8 billion were up 4% year-over-year on a pro forma basis.

Total transaction revenues declined slightly versus an unprecedented backdrop a year ago. Importantly though, total recurring revenues, which represent about half our business, increased by 9%, with all three of our business segments contributing to the strong year-over-year growth.

First quarter adjusted operating expenses totaled $729 million, including $30 million related to Bakkt. Without the additional $7 million of Bakkt investments, we would have been toward the lower end of our original guidance. We expect that Bakkt's merger with Victory Park SPAC will be completed toward the end of this quarter.

We expect second quarter adjusted operating expenses to be in the range of $742 million to $752 million, including approximately $35 million of additional expense related to Bakkt. Incorporating the additional Bakkt expenses into our full-year guidance as well as slightly higher-than-expected FX which will be more than offset by higher revenues, we now expect full-year adjusted expenses to be in the range of $2.88 billion to $2.93 billion.

First quarter free cash flow totaled over $700 million. We used this strong cash generation to grow our dividend payout by 12% even as we reduced our leverage to 3.8 times EBITDA by quarter's end. In addition, during April, we elected to sell our 1.4% stake in Coinbase, which generated over $1.2 billion in gross proceeds and approximately $900 million net of taxes. Assuming those proceeds have been used to reduce debt at the end of the first quarter, our pro forma leverage would have been closer to 3.6 times, compared to 4.2 times when we acquired Ellie Mae just over six months ago.

Now let's move to slide 5, where I'll provide an overview of the performance of our Exchange segment. First quarter revenues totaled $974 million, including transaction revenues of $653 million, the second best quarter in our company's history. This strong performance was driven by our energy, interest rate and cash equities businesses. Importantly, open interest, which we believe is the best indicator of long-term growth, is up 13% versus the end of 2020, including 5% growth in our energy open interest and 26% growth across our financial futures and options complex.

Copyright © 2001-2021 FactSet CallStreet, LLC

Recurring revenues, which include our exchange data services and NYSE listings, increased 5% year-over-year, driven by continued strong equity capital market trends and NYSE share of industry SIP revenues. Looking to the second quarter, we expect recurring revenues in our Exchange segment to be between $315 million and $320 million.

Turning now to slide 6, I'll discuss our Fixed Income and Data Services segment. First quarter revenues totaled $468 million. 6.5% growth in our recurring revenues, which account for nearly 90% of total segment revenues, more than offset a year-over-year decline in transaction revenues.

Fixed income data and analytics, which includes both our leading pricing and reference data and index businesses, increased by 7%. Other data and network services grew 6%, driven by continued customer demand for additional network capacity.

Looking to the second quarter, we expect recurring revenues to improve sequentially and to be in a range of $401 million to $406 million. This outlook is supported by ASV entering the second quarter at $1.6 billion, up over 5% year-over-year.

Looking to the balance of 2021 and consistent with the guidance provided during our fourth quarter earnings call, we continue to expect recurring revenues in our Fixed Income and Data Services business to grow 5% to 6% for the full year.

Let's go next to slide 7, where I'll discuss our Mortgage Technology segment. Please note that my comments on revenue growth are on a pro forma basis. Mortgage Technology revenues grew 61% year-over-year in the first quarter. First quarter transaction revenues increased 84% year-over-year. Favorable financing conditions, accelerating millennial homeownership trends and demand for digital workflow tools, such as our origination technology, closing solutions and analytics, all contributed to our strong results.

Recurring revenues once again improved sequentially and increased 32% versus the prior year. Increased adoption in new customers of both our origination technology and analytics continued to expand our subscription base. We expect recurring revenues in the second quarter to again increase sequentially to a range between $128 million and $133 million, representing around 30% growth versus the prior year.

As a note, in an effort to improve transparency and better align our reporting with our targeted addressable markets, we're now reporting closing solutions as a single business line. These revenues will include both our eClose initiatives and revenues from MERS registrations. Our closing solutions today already represent over 20% of a $1 billion addressable market.

In addition, we've moved our network revenues into our origination technology business line. This business today represents around 20% of the $4 billion underwriting and processing TAM that we highlighted during the Ellie Mae deal call.

In summary, 2021 is off to a strong start. We once again grew revenues, operating income, free cash flow and adjusted earnings per share. At the same time, we continue to invest in our business to meet the needs of our customers. As a result, we've set the stage for continued top and bottom line growth and enhanced shareholder returns in 2021 and beyond.

Copyright © 2001-2021 FactSet CallStreet, LLC

Warren and the team will handle Q&A today. But before I hand it to Ben, I want to congratulate Warren on his new role and wish him great success. I also want to thank Jeff for the opportunity he gave me 14 years ago to help build this great business that he started. And finally, I want to thank all my ICE colleagues. It's been an honor and a privilege to work alongside you as a part of the ICE team.

Ben, over to you.

Benjamin R. Jackson

President, Intercontinental Exchange, Inc.

Congratulations to you, Scott. Thank you and good morning to everyone on the call. Please turn to slide 8. As we begin to emerge from the COVID-19 pandemic and the highly volatile environment we experienced in 2020, our customers continue to rely on our global energy markets to navigate uncertainty and manage risk.

And importantly, it's our network expertise and investment in technology that enables us to deliver innovative customer solutions and capture the growth opportunities provided by secular trends, such as the growing complexity of energy markets alongside the energy transition.

In our oil markets, Brent crude serves as the cornerstone of a global network that includes key benchmarks such as WTI, Gasoil, RBOB gas and, most recently, Murban Crude Oil. By leveraging our global network, the launch of ICE Futures Abu Dhabi, or IFAD, has enabled, for the first time, participants to come together and contribute to the price formation of Murban, an important benchmark for oil flowing through to Asia.

In just its first month, Murban, along with related derivatives, has traded over 150,000 contracts across 49 firms with growing open interest, now over 45,000 lots, making it one of the most successful futures launches in our industry's history.

Natural gas continues to globalize, a trend we began investing in nearly a decade ago through our acquisition of Endex. Today, our European TTF and Asian JKM gas complexes continue to grow and reach important milestones as they evolve into global gas benchmarks. In the first quarter, the number of participants in each market grew double digits year-over-year and TTF Futures reached record volumes.

In addition, open interest trends remained strong, up 18% and 14% year-over-year for TTF Futures and JKM, respectively. This strength, along with growing exchange market share and new product development, continues to underscore the significance of our contracts to the price formation of global natural gas.

In our environmental markets, price appreciation in European emissions drove the ICE Global Carbon Index to record levels in the first quarter. Market-based mechanisms, such as our cap and trade offering, are critical to enabling the price transparency that is required to properly attribute a cost to pollution and ultimately help our customers reach their emissions goals in a cost-effective manner.

We recognized the importance of carbon price transparency over 10 years ago, acquiring the Climate Exchange in 2010, and we have seen our environmental volumes and open interest grow nearly double-digits, on average, every year since. By combining the network and liquidity of our global energy complex with our leading environmental complex, we are well positioned to help our customers navigate this evolution across global energy markets.

Moving to our fixed income business, as fixed income markets electronify and passive investing grows, our comprehensive fixed income data platform continues to deliver compounding revenue growth. Our quality end-of-

Copyright © 2001-2021 FactSet CallStreet, LLC

day and real-time evaluated prices provide mission-critical price transparency for nearly 3 million securities per day. Additionally, our flexible delivery solutions enable customers to consume data in a variety of ways, which they are increasingly demanding as they seek more efficient workflow solutions.

Our proprietary price evaluations, along with our broad suite of reference data, serve as the foundation for many innovative solutions, such as our rapidly growing index franchise, a business we built through both organic and inorganic investment, including our acquisitions of IDC and the Bank of America Merrill Lynch Index platform.

In the first quarter, we not only saw multiple ETF sponsors switch their benchmark provider to ICE data indices, but we also saw growth in the use of our custom index solutions across the US, Europe and Asia Pacific. This strength, once again, drove double-digit revenue growth in our index business and is a testament to the value of our comprehensive index and broader fixed income data and analytics offering.

Similar to the playbook we operate across our global energy and fixed income businesses, in mortgages we are leveraging technology, data and our network expertise to build innovative solutions that drive workflow efficiencies. With the touch point to nearly every market participant, we have connectivity to a customer base in need of the automation that our digital solutions provide.

As customers increasingly seek these efficiencies across the very manual loan origination process, our leading origination technology, known as Encompass, provides valuable digital solutions that can reduce both the time and cost required to originate a loan. Combined with our unique network of proprietary and third-party services, we are well positioned to lead the transformation of an industry that is moving analog to digital, an opportunity that we think has an addressable market of $4 billion in the origination and processing space alone.

In the second quarter, we launched our Encompass eClose offering, a product we were able to rapidly bring to market by quickly integrating Simplifile's closing solutions into our leading origination platform. Our new eClose offering is a leading-edge solution that will provide a true end-to-end electronic closing for US mortgages by decreasing operational costs for lenders, creating additional efficiencies for settlement agents, streamlining the sale of loan to investors and, importantly, greatly improving the overall borrower experience. We are encouraged by the early demand and remain focused on building out our closing solutions within this $1 billion addressable market.

Another example of innovation that we are delivering to the mortgage industry is within our data and analytics business. We know from our experience across futures, equities and fixed income networks that data fuels automation, and the mortgage origination process is no different.

Through our AIQ offering, customers can leverage our artificial intelligence and machine learning tools to drive significant efficiency gains. Analytics, such as our credit analyzers and income analyzers, leverage automated document recognition and data extraction technology to reduce the manual stare and compare work that exists across the mortgage workflow today. And at less than $100 million in revenue in our mortgage data and analytics business is well positioned to increasingly capture share of what we believe is a $4 billion addressable market.

Importantly, the demand we are seeing for solutions like our eClose and our data and analytics gives us confidence that we can grow through business cycles and, as a result, grow a business that at $1.2 billion today in revenue is only a fraction of the $10 billion addressable market that is in the early days of an analog to digital conversion.

And with that, I'll now turn the call over to Jeff.

Copyright © 2001-2021 FactSet CallStreet, LLC

Jeffrey Craig Sprecher

Founder, Chairman & Chief Executive Officer, Intercontinental Exchange Inc.; Chairman, New York Stock Exchange, Intercontinental Exchange, Inc.

Thank you, Ben, and thank you all for joining us this morning.

Please turn now to slide 9. In the first quarter, we once again grew revenues, grew adjusted operating income and grew adjusted earnings per share, delivering the best quarter in our company's history. And remarkably, we did this against last year's record-breaking volumes and volatility, which was largely driven by the onset of the global COVID-19 pandemic.

Our results are a testament to the value of our data, technology and the strength of our strategic business model. The compounding growth of our subscription-based services, combined with our diverse transaction-based businesses, means that our growth is not tied to one economic cycle, to one geography, or to one asset class. Rather, it means growth on top of growth through all rate environments, across asset classes and around the world.

Over the past 20 years, ICE has continually evolved to meet the needs of our customers and provide value for our stockholders. And for the past 14 years, I've had the privilege of working alongside Scott Hill as our growth story has unfolded. ICE has completed dozens of deals and made thousands of strategic decisions that have been rooted in the information and the quality metrics that were ingrained in our culture by Scott.

Scott not only provided financial leadership for the company, but he's played a vital role in providing strategic vision, he championed our unique culture and he's mentored younger generations of leaders. And so I want to thank Scott for his contribution, for his dedication and for his leadership. And I want to wish him our best as he moves on to tackle the difficult life of ranching in Texas.

Scott will officially transition next month, and he'll remain an adviser and a mentor to ensure a smooth transition as Warren Gardiner assumes the duties of CFO. Warren has worked closely with Scott over the last four years and covered our sector as a senior research analyst for many years prior to this. Warren's knowledge of our business and our industry will help us to continue to build on the foundation that's been established by Scott and continue a track record of growth. I also want to welcome M.C. as our new Investor Relations Head.

Let me say thank you to our customers for their business and their trust in the quarter. And I want to thank my colleagues at ICE for their contribution to delivering the best quarter in our company's history.

With that, I'll now turn the call back over to our moderator, Chad, to conduct the question-and-answer session, which will run until 9:30 AM Eastern Time.

Copyright © 2001-2021 FactSet CallStreet, LLC

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now begin the question-and-answer session. [Operator Instructions] And the first question will come from Rich Repetto with Piper Sandler. Please go ahead.

Richard Henry Repetto
Analyst, Piper Sandler & Co.

Q

Yeah. Good morning, Jeff and Scott. And Scott, all the praise and comments are well deserved, so congratulations. My first question will be on the Mortgage segment. And I guess it's Ben or Scott, but you reclassified the lines and you sort of explained that. But I'm trying to understand how you outgrew what looked like down industry originations. And when we look at those four lines now that are reclassified, which ones are recurring and which ones are transactional, so we can model it out? And then, lastly, which will be more dependent on refi or purchase mortgages?

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

Thanks, Rich. This is Ben. And thanks for observing what we've seen in the marketplace in terms of a downturn in transaction volumes. As I can confirm, we saw a downturn in closed loans on our Encompass platform when you look at Q1 closed loan volume versus Q4. And as our results are testament to, we were able to grow through it.

And what I'd point to is what we said when we originally announced the deal back in September, in that we see, just like we saw in the commodities markets two decades ago, just like we've seen in the fixed income markets that the mortgage space is an industry that's going through a significant analog to digital transition. And we knew by combining the closing network that we have with the unique customer, originator and investor network that Ellie Mae has that we can do something really special here for our customers in providing a digital future and a lot of efficiencies.

And that's how we got conviction that we can grow through long-term cycles. That's how we put out a guide, a 10-year guide of roughly doubling revenue when you look at that 8% to 10% guide over a 10-year period. That's roughly doubling revenue. And what we've seen in the platform has done nothing but strengthen our conviction over the last eight months in our ability to do that.

Last quarter, I mentioned that Q3 and Q4 sales expectations well exceeded our model that we put together last summer when we did the deal. And Q1 continued this trend. And what we get – tactically, what you get when you're increasing your penetration into new sales, you're getting new subscription revenue when you implement. And then as you ramp the customers up, you're getting more loans that you're interacting with that you were never interacting with before. Those loans then interact with services on our network. So you have a flywheel effect, you have a compounding effect.

But I think more importantly is what I was trying to get through in the script is that when a customer is choosing our solution set, they're choosing to fundamentally change their business. They're fundamentally choosing to remove manual processing and adopt digital ways to automate. And when they select us, they're selecting us to be the heart and lungs there, to be their network that's interconnecting them to every player that we interact with from our front-to-back network.

Copyright © 2001-2021 FactSet CallStreet, LLC

And as they realize those benefits from being part of our ecosystem, it enables us to cross-sell our other services that I also mentioned in the script, such as our AIQ offering, which is that automation of the underwrite, as well as eClose. So, that's what gives us conviction on the ability to grow this business sequentially, quarter-over-quarter on subscription revenue growth, and to grow through downturns or to outperform downturns in terms of volumes, just as we did Q1 versus Q4.

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

A

And hey, Rich, this is Warren. I'll just try to give you a little bit of color on the subscription versus transaction breakdown. Most of the subscription revenue is going to be in that origination technology line. And within that, it's pretty balanced between subscription and transaction. The other part of subscription is going to be in data and analytics.

And then when you think about transaction side of that, it's going to be the closing solutions, that's pretty much 100% transaction and then others transaction as well. And so, hopefully, that helps you a little bit in terms of color, but we haven't broken those out quite yet, so.

Richard Henry Repetto
Analyst, Piper Sandler & Co.

Q

Got it. Helpful. Thanks, guys.

Operator: And the next question will come from Mike Carrier with Bank of America. Please go ahead.

Michael Carrier
Analyst, Bank of America Merrill Lynch

Q

All right. Good morning. And thanks for taking the question. Maybe just on the capital front, given the Coinbase gain you expected in 2Q, just wanted to get an update on how you guys are prioritizing your debt paydown if you expect to get your target leverage faster? And then any other investment areas for growth in the business?

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

A

Yeah. Hey, Mike, it's Warren, again. So, yeah, we're definitely a bit ahead of schedule in paying down debt faster than we sort of expected when we started the deal. I mean, I would say we were doing that, though, before the Coinbase sale. You look at the quarter, we generated about $734 million of cash flow. We used that to pay down a little – or close to $350 million of debt, raised our dividend by 10%, and then also invested in the business. So I think when you think about this Coinbase proceeds, that's really – that gives us some additional flexibility as we kind of move into the rest of the year.

And as Scott said, we're down to about 3.6 leverage. The target is about 3.25, where we can start to think about buying back stock. But, again, this is just giving us a little bit of flexibility, and we'll give you guys kind of more of an update as we get a bit closer to that in terms of what we'll do with buybacks.

Michael Carrier
Analyst, Bank of America Merrill Lynch

Q

Great. All right. Thanks a lot.

Copyright © 2001-2021 FactSet CallStreet, LLC

Operator: The next question is from Ken Hill with Loop Capital. Please go ahead.

Kenneth Hill
Analyst, Loop Capital Markets

Q

Hi. Good morning, everyone. So I wanted to start with ICE Futures Abu Dhabi. I know you guys had a really strong start with the Murban crude contract. You talked about some of the records. Ben, I think in the prepared remarks, you talked about it being one of the most successful launches there.

I was hoping you could maybe outline a little bit on the broader ambitions in regions there, whether it's Middle East or Asia, how you might be leveraging that success there and thinking about kind of like a land-and-expand type of opportunity in other ICE products, whether that's on the trading side or on the data side? How should we be thinking about that in those regions there? Thanks.

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

Thanks for the question, Ken. It's Ben. And when you look at our futures markets and how we've developed them versus any of our peers, we have stayed very close to the commercial customer base since our inception. And that's what's enabled us to develop literally hundreds of oil contracts around the world, because it helps our customers not only manage their risk in a benchmark contract, but also help them manage their risk at the point of consumption or the point of production of where they have real risk. And we're the only truly global platform that enables customers with deep liquid markets in hundreds of marketplaces to be able to manage that risk.

And with the backdrop of COVID going on the past year, we didn't stop moving. We continued to partner with our commercial customers around the world, and that's what led to the launch of ICE Futures Abu Dhabi just in the last few weeks here. And in the early days, it looks like to be one of the most successful futures launches in history. And what I'd point to with that is not only the volume growth, but also, importantly, the significant open interest growth and the fact that there's 49 major players that are in there utilizing the contracts, establishing positions to manage risk.

And I look at that compared to other parts of our oil business that, across the board, are doing very well. If you compare our overall oil open interest right now in April versus the fourth quarter, we're up in almost every major product category. You compare April oil open interest versus April 2019, we're up in almost every category.

If you look at under the covers from a year-over-year basis, while there's some tough compares in there, we have significant product sets, such as our Asia refined product set, Gasoil and Dubai that are up year-over-year. So we believe we have a great foundation, we've already been in Asia, have a number of significant products out there that enable customers to hedge and manage risk, and we're going to stay very close to our commercial customer base to look for more opportunities to do so.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer, Intercontinental Exchange Inc.; Chairman, New York Stock Exchange, Intercontinental Exchange, Inc.

A

And this is Jeff. I think we – to give a little more embellishment, we've launched, I believe now, a dozen derivative contracts on that exchange. So we're moving quickly, if you will, to build out a broader product suite there. And one of the things that Ben alluded to, and it was inferred in your question, is that there's a large Asia presence of commercial users that operate in and around, comfortably, in the Middle East. So it gives us an interesting launch point, if you will, for additional derivative contracts. So I think you'll see us continue to build out this amazing suite that we have, including Abu Dhabi as a vehicle.

Copyright © 2001-2021 FactSet CallStreet, LLC

Kenneth Hill
Analyst, Loop Capital Markets

Q

Got it. Thanks for the additional color there.

Operator: And the next question will come from Alex Blostein with Goldman Sachs. Please go ahead.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks. Good morning, everybody. And to echo everyone's comments, Scott, Warren, M.C., big congrats to all of you. I wanted to go back to the Mortgage business for a second. So, clearly, organic growth remains really strong. Ben, great to hear the sales momentum continues to be above projections in the first quarter. But the market clearly seems to be overly concerned about the refi cliff, so to speak, in the market, which would hit your transaction revenue.

So, can you help us maybe unpack how much of the $230 million related to transaction revenues is refi versus new purchases? I think legacy LMA was about 50-50, but that mix probably has evolved here. And I guess how would you frame the downside risk to this revenue bucket, assuming current industry refinance expectations come through?

And then, secondly, I was hoping maybe we could hit on the expense interplay here as well. To an extent that transaction revenues come down, is there any expense offset we could see in that segment? Thanks.

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

Thanks, Alex. This is Ben. I'll start and then I'll hand it to Warren on the expense side. So, when you look at the – you had a number of different questions in there, so I'll try to unpack a couple of different things that we're seeing. So, first, the answer that I had for Rich's question is important to go back to. So we're not looking at this as a quarter-over-quarter business and really worry or fret about volumes that are changing each quarter, because we see that there's just a long-term change that's happening towards digitization. We see substantial TAMs that are out there that when you look at our presence in each of those TAMs have not only a long runway, but we have a lot of opportunity for growth in each of them.

The core being that Encompass and the network set that we have, where we have a little over 20% if you look at the trailing 12 months, roughly 20% of that TAM is the starting place that we have. And as we continue to sign new customers, as we continue to onboard those customers on, we're interacting with new loans. We're getting to more subscription revenue. We're getting more transaction volume, and those loans are interacting with more services on our network. We believe we're very well positioned to go after that.

The other thing I can't emphasize enough is the other two TAMs are really a cross-sell opportunity. We are already touching at some point in our network from our customer acquisition and the point-of-sale systems that we have to the loan origination network that we have that's now interconnected to our closing network. We're touching just about every player in the mortgage ecosystem. So our ability to sell these new services is a cross-sell. So we feel very, very good about our position to grow against the closing TAM, which we have roughly a 20% of that TAM today. But we're very uniquely positioned with the new eClose offering that we've launched to go after a significant amount more of that.

Copyright © 2001-2021 FactSet CallStreet, LLC

And then, on the AIQ, that's the automation of the actual underwrite process itself. We're seeing – we continue to see record sales volumes of that product, which, again, is a cross-sell to core Encompass customers. When it comes to mix on our platform, because if you look at just the loan origination side, there is a little bit of a tilt towards non-bank originators and non-bank originators tend to have a slight tilt towards purchase market versus refi. A lot of people do their refis with large banks that they have their established banking relationships with.

We tend to benefit more from a market that's moving more towards purchase. But that said, it's on the edges there. And when you look at our entire network, we're working with just about every player in the industry is utilizing one of our services around one point of our network.

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

And hey, Alex, it's Warren. Just quickly on the expenses. So there are definitely some variable expenses in there, what you would probably normally think about comp, marketing spend, things of that nature.

But as Ben said, this isn't about second half or this isn't about a particular quarter. This is about a 10-year plan or strategy of doubling revenues from where we are today. And so we're going to continue to invest in that business.

We talked about $40 million to $45 million, I think, when we gave guidance to start the year. And I think that should still kind of – or incremental expense, I should say. And so, that should still be kind of what you expect, I think, as you're looking into the second, third, fourth quarter and expect that to kind of ramp as things like investments like eClose and things of that nature kind of continue to pick up some steam.

Operator: Thank you. And the next question will come from Brian Bedell with Deutsche Bank. Please go ahead.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.
Q

Great. Thanks. Good morning, folks. And also my congrats to Scott, Warren and M.C. as well. Just a two-parter, again on Mortgage Tech, it's the topic of today, of course. Just in terms of the strength in origination, Ben, if you could just touch on the recurring revenue side, the impact of market share gains versus cross-sell revenue synergies into that network base?

And then, the second part is on the closing side. I think you said 20% of a $1 billion TAM. It looks like the revenue run-rate there is $280 million. So, just wanted to double check. So, that would be 28%, but I'm sure I'm using different denominators there. So, just wanted to check on that and then your optimism on the growth in the close business versus the rest of the Mortgage Technology business.

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

Thanks, Brian. I'll hit that last part first. So, on the roughly 20%, I'm looking at the last 12 months. And it's a rough gauge...

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.
Q

Okay. Got it.

Copyright © 2001-2021 FactSet CallStreet, LLC

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

...on that piece. The first part of the question, repeat the core of what you were looking for there?

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.
Q

The core of that is from the recurring revenue gains that you mentioned in the Mortgage Tech segment and especially in origination technology, maybe if you can characterize what's coming from market share gains from Encompass being better – getting better penetration of Encompass across the banks and financial network versus actual cross-sell into the network...

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

Yeah. Got it.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.
Q

...so more like a synergy basis? Yes.

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

Sure. So – and that's what I pointed the first answer that I gave to Rich, pleased with the new sales results that we've seen as well as cross-sell results that we've seen on the platform. And the way to think about that recurring revenue, what gives us confidence in the fact that that recurring revenue will grow sequentially quarter-over-quarter and we're guiding to growth next quarter, is that we continue to see and there's a mix in that recurring revenue line of customers that are expanding their footprint with us.

And expanding their footprint with us can mean that they're adding new loan officers, they have more volume on their platform, so they go ahead and expand their footprint with us. And when they do that, that falls to the subscription line item very quickly.

Second thing that you see is that we have cross-sells of other products to our customer base. So they expand and buy other services that we have. It could be our AllRegs business, our Mavent business, very importantly our AIQ services. So we're seeing that as a very high cross-sell into our customer base. Some of those services require a short implementation timeframe. So, after we sell it, there may be some lag before the subscription revenue comes. But that's the other element.

And then new customers, we're seeing new customer acquisition. As I mentioned last quarter, a record Q3 and Q4 in terms of gathering new customers, and then Q1 well exceeded our expectations both in our original model as well as our budget in terms of signing new customers onto the platform. And when we sign those new customers onto the platform, they do need to be implemented. It's a cloud-based platform, so the implementation isn't that long, but there is some lag between when we sell it and then that drops to the subscription line.

And then once the customer is implemented, they start to ramp and that's when we start to see the loan transaction volume and then those loans interacting with our network then build and then we see more transaction volume building on that.

Copyright © 2001-2021 FactSet CallStreet, LLC

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks. That's great color. Thank you.

Operator: And the next question will come from Ari Ghosh with Credit Suisse. Please go ahead.

Ari Ghosh
Analyst, Credit Suisse Securities (USA) LLC

Q

Hey. Good morning, everyone. Maybe just a quick follow-up, Ben, on Mortgage Tech. Ben, you just talked about customers expanding their subscription footprint with you. So, as we think about that $4 billion data TAM that you highlighted, can you talk about the current data and analytics usage by a captive customer base, what's the level of customer penetration at present? Are these customers utilizing competitor data products or just maybe not leveraging much of these analytics and their workflows at present? Just to get a sense of penetration levels and the ease of kind of acquiring some of these services and growing that subscription footprint. Thanks so much.

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

Thanks for the question, Ari. It's Ben again. So this is an area, when you look at just the raw numbers versus the TAM, we're obviously very early stages here. So we have 2% to 3% of the TAM is what we have if you look at our current revenues versus a $4 billion opportunity here. And this we see as a near-term TAM that we are executing against. That's why we had it in the script. That's why we've highlighted it in the last couple of calls that this AIQ offering is really seeing some good pickup across our customer base.

We had record sales of it in the third and fourth quarter. And this is another area where we've well exceeded our expectations into Q1 of really cross-selling this service into our Encompass customer base. And what this enables is it's really the core of where you're able to take out a ton of the manual processing. We've mentioned that our estimates are that it costs $8,000 to manufacture a loan today. And out of that, about $5,200 of that is just manual processing.

And by first applying our automated document recognition and extraction technology, but then also putting our mortgage expertise on top of that to say, okay, as we extract this data out of the documents, as we automate it, we are able to take that information, put it into a database and compare it to what the income qualification and credit qualifications are for a particular product set because we have that whole – in our AllRegs business, we have the entire reference data set of – depending on the product the customer's applying for, we know exactly what the qualification criteria are of that.

So we're able to take a lot of the manual stare and compare work of comparing information that came in on original customer application versus what's coming in as we're getting documents that we can verify, and also cross-reference it against what the criteria are to apply for that particular product.

So we feel great about it. It's early, but we're seeing this really as customers are starting to adopt it, they're getting the benefit of it. We're seeing other customers are catching from word-of-mouth in the industry that this is providing real benefits from their peers, and we're seeing our funnel just continue to strengthen in this area. And again, for the most part, it's a cross-sell into our existing base.

Copyright © 2001-2021 FactSet CallStreet, LLC

Ari Ghosh
Analyst, Credit Suisse Securities (USA) LLC

Q

Got it. Thanks so much. And again, congratulations, Scott, Warren, M.C. as well.

Operator: Thank you. And the next question will be from Chris Harris with Wells Fargo. Please go ahead.

Christopher Harris
Analyst, Wells Fargo Securities LLC

Q

Thanks, guys. On ICE Abu Dhabi, can you talk a little bit about how Murban might be distinctive or why you think it will win for some of the other benchmark alternatives that are out there targeting Asia?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer, Intercontinental Exchange Inc.; Chairman, New York Stock Exchange, Intercontinental Exchange, Inc.

A

Yeah, it's a good question. One of the sort of historical roots of the commodity exchange business has been that commodities tend to be priced at their – near the source. In other words, it was grain priced at grain elevators that were located near the fields. And in the case of energy, it's oil, natural gas or electricity priced somewhere locationally near where it's produced. And then, from a hedging standpoint, as a hedger would buy a contract on an exchange, they would then need to add to that hedge a transportation or movement hedge on top of the commodity hedge.

And so we – and as we got into organizing these commodities on futures exchanges that have clearing houses, the clearers price the credit risk of their customers. And so, the commodity price that is determined on the exchange, if you will, doesn't have the customer credit risk in it and it doesn't have the delivery risk in it. So, in a sense, it's a pure commodity near where it's produced.

And so, one of the tensions that's going on in the market, particularly with the growth of Asia, China and, more broadly, all of Asia is exchanges that were forming up and pricing their product at the point of delivery. And so, that's a different paradigm, if you will, for traditional commodities.

And so, one of the reasons that the state oil company of Abu Dhabi began to work with us was a recognition of the fact that they had a strong desire to continue to control pricing of the commodity or have the – the market control pricing of the commodity at its point of production and that the risk of delivery not be transferred back to the producer by having a delivery priced contract.

And so, that was really the motivation, along with the continued growth of the Middle East and modernization of the infrastructure in the Middle East. And so it's a really good location, if you will, because of the energy footprint there and also just the growing economies of the Middle East. And the interplay between the Middle East and Asia just seem like a very good place for us to have a geographic reference.

And it's not surprising, we've done a lot of work underneath this launch, as you can imagine and really, because of our global footprint, are able to talk to commercial users around the world. But it's not fully surprising to us that this is working because of that historical dynamic was actually playing in our favor.

Operator: Thank you. Ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the conference back over to Jeff Sprecher for any closing remarks.

Copyright © 2001-2021 FactSet CallStreet, LLC

Jeffrey Craig Sprecher

Founder, Chairman & Chief Executive Officer, Intercontinental Exchange Inc.; Chairman, New York Stock Exchange, Intercontinental Exchange, Inc.

Thank you, Chad. I want to again thank Scott Hill for his amazing contributions to the company and for all of his success. And I want to thank everyone here for joining us this morning. We look forward to updating you as we continue to execute and innovate. And with that, we'll close the call and have a great day.

Operator: Thank you, sir. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.

Disclaimer
The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2021 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.