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Intercontinental Exchange, Inc. (ICE)

Q2 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and welcome to the ICE's Second 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, Head of Investor Relations. Please go ahead.

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

Good morning. ICE's second 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, second 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

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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; Warren Gardiner, Chief Financial Officer; Ben Jackson, President; and Lynn Martin, President of Fixed Income and Data Services.

I'll now turn the call over to Warren.

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

Thanks, M.C. Good morning, everyone, and thank you for joining us today. I'll begin on slide 4 with some of the key highlights from our second quarter results. Adjusted earnings per share totaled $1.16, up 12% year-over-year. Net revenues totaled $1.7 billion, and on a pro forma basis, we're up 4% versus last year. While total transaction revenues declined slightly, our recurring revenues, which now represent over half of our business, increased by 10%, with all three of our business segments contributing to the strong year-over-year growth.

Adjusted operating expense totaled $744 million. Our investments in Bakkt contributed approximately $36 million to second quarter expenses and were offset by approximately $9 million of net revenues. We now anticipate that Bakkt announced transaction with Victory Park will close in the third quarter.

Looking to the second half, we expect third quarter adjusted operating expense to be in the range of $770 million to $780 million, including $55 million related to Bakkt, which we expect will be offset by $12 million of net revenue. Incorporating third quarter Bakkt expense into our full-year guide, we now expect 2021 adjusted operating expenses to be in the range of $2.95 billion to $2.98 billion.

First half free cash flow totaled over $1.4 billion, which we used to fund a 10% increase in our dividend while also reducing our leverage, ending the quarter at just under 3.4 times adjusted EBITDA. As noted last quarter, we elected to sell our stake in Coinbase in early April, generating over $1.2 billion in gross proceeds which we then used to reduce commercial paper outstanding.

With respect to our other minority investments, we're in the early stages of exploring a sale of our stake in Euroclear. While the timing of any potential sale remains unclear, our strategy is consistent with our goal to reduce leverage following the acquisition of Ellie Mae and our strategic approach of continuously evaluating and optimizing the allocation of capital across our business.

Now, let's move to slide 5 where I'll provide an overview of the performance of our Exchange segment. Second quarter net revenues totaled $909 million, including $582 million of transaction revenues. This strong performance was driven by a 6% increase in our interest rate business, an 11% increase in European natural gas revenues, and a 59% increase in revenues related to global environmental products. Importantly, total open interest, which we believe is the best indicator of long-term growth, is up 14% versus the end of last year, including 10% growth in energy open interest and 21% growth across our financial futures and options complex.

Recurring revenues, which include our exchange data services and our NYSE listings business, increased 7% year-over-year. The acceleration in growth was driven by 8% growth in our listings business, as an increasing number of operating company IPOs, particularly in the technology and consumer sectors are joining the NYSE.

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Looking to the third quarter, we expect recurring revenues in our Exchange segment to be between $324 million and $329 million, representing approximately 5% growth year-over-year, as the sequential improvement in listings revenues is expected to be somewhat offset by lower data fees at the NYSE.

Turning now to slide 6, I'll discuss our Fixed Income and Data Services segment. Second quarter revenues totaled $458 million, 6% growth in our recurring revenues, which accounted for nearly 90% of total segment revenues, offset a year-over-year decline in transaction fees. Fixed income data and analytics, which includes our leading pricing and reference data and ICE Data Indices, increased by 5% including another quarter of double-digit growth in our index franchise. Other data and network services grew 7%, driven by continued customer demand for additional network capacity. Looking to the third quarter, we expect our recurring revenues to improve sequentially to a range of $409 million to $414 million. And in addition, we now expect full year recurring revenue growth to be towards the higher end of the 5% to 6% guidance range we provided on our fourth quarter call.

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 17% year-over-year. Second quarter transaction revenues increased by 8%, while recurring revenues were up 36%, and at $136 million, exceeded the high end of our guidance range.

These better than expected results were driven by a combination of new customer growth and increased adoption of digital workflow tools across origination technology, closing solutions, and data and analytics.

Shifting to the third quarter, we expect the recurring revenues will once again grow sequentially and be in the range of $137 million to $142 million, representing around 30% growth versus last year.

The first half of 2021 was the strongest in our company's history. We once again grew revenues, operating income, and free cash flow. Adjusted earnings per share of $2.50 were up 9% versus the prior record set in the first half of 2020 and have increased 17% on average versus the first half of 2019. In addition, less than one year following our strategic acquisition of Ellie Mae, we have reduced debt by nearly $3 billion, while also continuing to strategically invest in future growth.

I'll now turn the call over to Ben to discuss some of the highlights of our Exchange and Mortgage businesses.

Benjamin R. Jackson

President, Intercontinental Exchange, Inc.

Thank you, Warren, and good morning to everyone on the call. Please turn to slide 8. In the second quarter, interest rate volatility, global economic reopening, and the continued evolution of energy markets once again drove customers to our deep liquid markets to manage their risk. This resulted in open interest records across the platform. And through July, open interest continues to build, increasing 9% versus last year and reaching a new record for our total futures complex this week.

Greenhouse gas emissions and the evolution of energy markets are becoming increasingly important to market participants around the world, as evidenced by the 40% growth in the number of customers in our global environmental markets since 2016. Volumes in those markets also continue to grow, up 27% in the second quarter and up 22% per year on average over the past five years.

Price transparency across the energy spectrum is critical as companies look to reduce their greenhouse gas emissions in a cost-effective manner. And by combining the network and liquidity across our global oil, natural gas, power and environmental markets, we are well positioned to help our customers navigate this evolution.

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In our natural gas markets, the globalization of gas and the rise of LNG are secular trends that we began investing in over a decade ago. And today, as market participants seek cleaner sources of energy, volumes and revenue in our European TTF and Asian JKM complexes have grown 46% and 37% per year on average over the past five years, respectively. And in our global oil markets, the breadth and depth of our offering, which includes Brent, WTI, gas oil, and over 700 spread products, makes us the natural home for innovative new energy products.

In March, we launched Murban Crude Oil Futures, which has been one of the most successful futures launches in our industry's history. And in the second quarter, we announced that we're working two of the industry's largest participants, Magellan and Enterprise, to launch the Midland WTI American Gulf Coast contract. This new contract will enable customers to price and hedge Midland WTI quality crude delivered into Houston without being burdened by the storage and logistics constraints of WTI at Cushing.

Turning now to our Mortgage business on slide 9, customers are increasingly seeking efficiencies across a very manual loan origination process. Our end-to-end digital solutions can not only reduce the time and costs required to originate, but can also provide a fully electronic closing and improve the quality of loans moving into the secondary market. And with a touch point to nearly every market participant, we have connectivity to a customer base in need of the efficiencies that our digital solutions provide.

The continued growth in our recurring revenues is a testament to the demand we're seeing for these digital solutions. As these new customers come on to our network, we benefit from new subscription revenues and have the opportunity to expand the customer relationship over time as they adopt additional solutions.

Just as we've seen in our other markets, this flywheel effect is what we believe will drive compounding growth in our recurring revenues and gives us confidence that we can grow a business that at $1.2 billion in revenue today 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 will now turn the call over to Lynn to discuss our Fixed Income and Data Services business.

Lynn C. Martin

President-Fixed Income & Data Services, Intercontinental Exchange, Inc.

Thank you, Ben, and good morning to everyone on the call. Please turn to slide 10. Data is a core competency at ICE, whether it's a byproduct of our Exchanges, evaluated prices or fixed income securities, indices and front office tools or data and analytics use across the Mortgage workflow. Data connects the different businesses across the ICE platform and connects ICE to participants across asset classes and around the world.

Our comprehensive fixed income data platform continues to deliver compounding revenue growth as these markets automate and as passive investing grows. Our quality evaluated prices provide mission-critical transparency for nearly 3 million securities per day. Combined with our comprehensive reference data offerings, these form the building blocks to index construction and product development.

The accelerating growth of passive investing and the efforts we've made to increase the breadth of our offering and flexibility of our approach to index construction has contributed to the double-digit annual growth in our index business since we acquired the Bank of America Merrill Lynch franchise in 2017.

A key driver of that growth has been an increase in the passive ETF AUM benchmarked to our indices, growing to over $300 billion from less than $100 billion in 2017. Part of that growth is being driven by established ETFs

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transitioning their benchmarks to ICE, including $60 billion of AUM that has announced the transition during 2021 to date. ICE Data Indices now represents just under 20% of the growing fixed income ETF universe, including over 50% of the muni ETF universe.

Additionally, over the last year, ICE has launched over 250 new indices across fixed income, equities and commodities, including a growing number of ESG and thematic indices as well as custom indices. Our new index customization platform gives investors direct access to the tools they need to build and quickly back-test their own index rules. And through the first half of 2021, customers have created nearly as many custom indices as were created in all of 2020.

Our index business is an important part of our broader front office toolkit, which also include solutions like continuous evaluated pricing, best execution, liquidity indicators, and real-time curves. These front office tools have grown double-digits for the past three years and continue to be an important part of our overall fixed income strategy. So, as flows continue to move into fixed income ETFs, ESG and thematic investing continues to grow, and fixed income markets electronify, we'll remain close to our customers and continue to deliver innovative solutions to meet their evolving needs.

I'll now turn it over to Jeff.

Jeffrey Craig Sprecher

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

Thank you, Lynn, and thank you, all, for joining us this morning. Please turn to slide 11. At the heart of our strategy at ICE is our data, technology and network expertise, which connect the different businesses across ICE, enabling us to deliver innovative solutions for our customers. In our index business, as Lynn mentioned, we've seen a fair number of exchange-traded funds transition their benchmarks to ICE.

In addition to the quality of our underlying pricing and reference data, another driver of these moves is the expansion of the reference data constituents that we offer. Assets under management transitioning to our indices not only benefits our Fixed Income and Data Services business, but we've seen the cross-selling benefit to our listings business with several biotech companies selecting the New York Stock Exchange as their listing venue.

Additionally, by combining our expertise in index construction with our leading global environmental trading markets, we've created the ICE Global Carbon Index, a benchmark for the universal price of carbon which is critical to employing market forces to reduce greenhouse gas emissions in a cost-effective manner. The ICE Global Carbon Index is part of a suite of environmental, social, and governance-related services that ICE offers to our customers, which also include green bond indices, climate analytics, and our ESG reference data.

Earlier this week, we announced the integration of ICE Mortgage Technology's transaction-based mortgage rates into our mortgage prepayment model at ICE Data. As a leading provider of price evaluations for mortgage-backed securities, this is an important new offering and it represents the first time that we've coupled the valuable underlying content from ICE Mortgage Technology with our expertise in identifying and creating new data offerings.

This enhancement will enable the market to more accurately price mortgage prepayments, which are a critical component for fixed income investors. These are only a few of the many innovative solutions that we're able to bring to our customers as a result of the synergistic relationships that exist across our platform which makes the whole of ICE greater than the sum of its parts.

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Looking at the first half of this year, amidst the backdrop of rising interest rates and rising commodity prices, yet lower equity market volatility and mortgage refinance volumes, we once again grew revenues, grew adjusted operating income, and grew adjusted earnings per share. These results are a testament to the strategy that we've operated for the past 20 years, the business model that we've intentionally built, and the value of our strategic capital allocation.

We've deliberately positioned the company to have a mix of transaction and compounding subscription revenues to give investors upside exposure while hedging our downside risk. We target markets where there's an analog-to-digital conversion taking place. We diversify our global footprint, because at all times, somewhere in the world, there are risks that our customers and our potential customers need to manage. We strategically deploy our capital both into and out of opportunities to maximize shareholder value. The combination of these factors is what makes ICE an all-weather name that generates growth on top of growth.

Before I end my prepared remarks, I'd like to say thank you to our customers for their business and for their trust in this quarter. And I'd like to thank my colleagues at ICE for their contribution to both the best second quarter and the best first half in our company's history.

With that, I'll now turn the call back to our moderator, Shaun, and we'll conduct a question-and-answer session until 09:30 Eastern Time.

QUESTION AND ANSWER SECTION

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

Richard Henry Repetto
Analyst, Piper Sandler & Co.

Q

Yeah. Good morning, Jeff. Good morning, Warren, and good morning, team. My first question is on the Mortgage business, and just trying to see if we can get some more clarification on how – when the interest rate environment changes, how it's going to impact the Mortgage business, especially in the back half of the year. If you look, you held up pretty well versus what the industry forecast. But how should we think about when the forecast at over 20% or 20% down quarter-to-quarter, Jeff and Warren?

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

Hey, Rich. It's Ben. I'll take this one. So, we're – as we've talked about in the prior calls, what we're doing here is we're building a business that's going to be resilient to cyclical volume trends, and at the same time, capitalizing on the secular trend of the overall analog-to-digital conversion and a long-term guide of an 8% to 10% average annual growth in the business. So, what you see in our results, as you saw, if you look at our top line revenue number and you compare that to where you try to draw a consensus to where the estimates are between Fannie, Freddie, MBA, we beat those numbers and we beat those results of what happened sequentially quarter-over-quarter. And we also, as we pointed out in the script, significantly beat our subscription revenue guide.

So, the couple things that are going on under the covers there is that, one, we're having incredible sales success, and when we sell new customers, that leads to new subscription revenue as we implement them. And then, number two, we're looking at taking this unprecedented time of volumes that the industry has seen last year and

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this year to purposely engage with our customers on opportunities to increase the amount of subscription revenue that we have and some of the services that we provide along our comprehensive network. Such as our loan origination system and our data and analytics platform called AIQ. So, we are purposely tilting relationships with new customers, as well as when customers are renewing, looking at shifting more of the mix towards subscription.

In terms of the volume trends that we're seeing, we're seeing a purchase market that's strong, but it's tough on inventory as is very well publicized, and we're seeing a refinance market where interest rates popped up in March and they've come right back down. So, we're still seeing a refinance market that's decent. And what's really offsetting any headwinds that refinance has seen has been a significant amount of cash-out refi that is happening in the market just given the amount of home price appreciation and people taking money off the table to do home improvements or pay off other debt. So, that's what's really happening under the covers.

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

Hey, Rich.

Richard Henry Repetto Q
Analyst, Piper Sandler & Co.

Yes.

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

Let me just make one more point here. Part of the strategy that we have at ICE is to build a company that will grow on top of growth. And so, we have really designed the company, so that we have interest rate exposure in other parts of the business that drive revenue up. And so, the goal here, and as you saw with interest rates ticking up, our interest rate futures complex and some of the products around our fixed income complex did better. So, part of the strategy with Mortgage is to make sure that we bundled it with this all-weather opportunity that we have across the whole business.

Richard Henry Repetto Q
Analyst, Piper Sandler & Co.

It's very helpful, Jeff and Ben, and it sort of segues into my follow-up, and that would be, on the fixed income side – on the data side, it's clear the dominance you have. And then, I guess the question is, will it ever – should we even focus on transaction revenue or is it – will it ever parlay into, on the transaction side, all the data dominance that you've established there?

Lynn C. Martin A
President-Fixed Income & Data Services, Intercontinental Exchange, Inc.

Yeah, Rich. This is Lynn. Thanks so much for the question. Now that we've brought the execution and data pieces together and as the fixed income markets had increasingly electronified, given the assets that we have under the umbrella, I think we're uniquely positioned to not only help the industry automate their workflows, but to benefit from that automation.

Last year, we launched a piece of technology which united our execution protocols, but more importantly, united our data elements alongside those execution protocols. And as a result, you're starting to see more and more activity through our portfolio trading, which leverages our front office data assets. All of that provides a tailwind for

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us from a distribution perspective as well as from a demand perspective to continue to deliver on the double-digit compounding annual growth rate that I mentioned in my prepared remarks for our front office toolkit.

Richard Henry Repetto
Analyst, Piper Sandler & Co.

Q

Got it. Thanks, Lynn. That's all my questions. Thank you.

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

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Hey. Good morning, guys. Thanks a lot. Thanks for taking the question. I was hoping to start with the energy business and ICE is seeing significant growth in the environmental product as you mentioned in one of the slides, I guess emissions futures in particular. It's a pretty high capture rate product, so I was hoping to dig in a little bit more here. So I guess, one, spend a few minutes on how this market is evolving and how do you expect the growth to sort of progress here? And specifically, I'm looking to get a sense of what the revenue contribution there is today to ICE. What sort of changes you're seeing at the customer composition level here, so kind of end customers versus financial players perhaps coming in? How is that evolving geographically? So, right now, it's largely EU, but perhaps UK, US, Asia on the come. And then, ultimately, competition. Again, high capture rate product, how sustainable do you think it ultimately will be?

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

Thanks, Alex. This is Ben. I'll take this one. So, as you can appreciate and we've talked about it in prior calls, we've been thinking about the environmental impacts and how to create a market-based mechanism to price carbon for over a decade. And that really came to life when we bought the Climate Exchange over a decade ago. Fast forward to today, for futures and options that are out creating a market-based mechanism to price carbon, we're 95% of the futures and options marketplace that's doing that. So, we have a tremendous presence around the world, it continues to be a very high-growth business for us, and as I see it will continue to be. And some of the drivers for that – I'll just touch upon some parts of the portfolio.

So, if you look at our EU business, where the vast majority of trading that's happening there, we continue to see new participants coming in, both financial players and commercial players, because new sectors are being captured in government mandates around who needs to pay attention to a carbon price signal. And there's the potential that areas like marine, roads, and buildings all get captured going forward into this. So that's a potential tailwind for more people needing to pay attention to our markets.

You also have in the EU the concept of free allowance thresholds, where if you're under a certain threshold, you don't need to necessarily pay attention to carbon price signals. There's momentum behind lowering those free allowance thresholds, which thus could capture some of the major heavy industrial sectors that are currently not captured there. So that again leads to more commercials coming into the marketplace.

In the US, again, we're a significant – very significant lead in our business there. And there, the big trend is new states coming into the Regional Greenhouse Gas Initiative. So there's potential for more and more states coming into that. There's momentum behind that in some of these states. And that leads to more trading in our markets.

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You have – just recently I mentioned on the last call that we launched our new UK Emissions Trading Scheme. So as a result of Brexit, one of the benefits we got is that the UK decided to set up their own Emissions Trading Scheme. They selected us to do that. We launched it. And as I mentioned in my prepared remarks, that it's been a very, very successful launch.

And then you have new geographies around the world. So you have a trend with – in Asia Pacific where there's the potential for more and more adoption of these. Given the significant lead we have in creating these markets on behalf of governments and market participants to create that market-based pricing mechanism, we're heavily engaged in all of those conversations.

And given that we are the most transparent way to price – put a market-based mechanism to price carbon, we've also developed alongside our ICE Fixed Income and Data Services business, a Global Carbon Index, which is being able – using the prices coming out of our marketplaces to create a very transparent way to look at both global as well as regional price trends within the carbon markets.

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

And then – hey, Alex. It's Warren. Just to answer your question on its contribution to our revenues. So volumes in that environmental complex has been about 2%, 3% of the energy volumes. But to your point correctly, it's a higher capture rate. And so revenues there are actually closer to about 10% of our energy revenues.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Got it. Great. Thanks. And just as a follow-up, maybe a little bit of a bigger picture question for you guys. But the stock is obviously lagged and the multiple is now at a pretty meaningful discount to a number of your peer groups. And there's, obviously, a number of peer groups there, so across essentially all of them.

I appreciate the point that ICE is looking to sell a stake in Euroclear. But are there opportunities to further kind of prune the portfolio more aggressively, maybe selling businesses that are not meeting your growth thresholds in order to delever faster and maybe begin a more aggressive share repurchase plan?

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

A

That's a great question. To a certain degree, that's what you saw us do. Our decision to sell our Coinbase stake was really about us being able to delever, so that we can get back to a position where we can buy back shares, return capital to shareholders, which, as you know, has been our historical trend.

And so, yes, is the answer. We're always looking at our portfolio. I think in our industry, there's a lot of mergers and acquisitions that happen, but very few of our peers really think about dispositions, and we do. As you know, we've at one time owned the French, Dutch, Belgian, Portuguese Stock Exchange. We've owned various analytic businesses. Obviously, we own some minority stakes in businesses. And so we're constantly thinking about our return on invested capital and how to best deploy it.

And as I think you are aware, we always look at our own view of the value of our shares, and to the extent that the best place for us to deploy capital is in returning it to shareholders via share buybacks, we aggressively do that.

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Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks so much.

Operator: [Operator Instructions] The next question will come from Alex Kramm with UBS. Please go ahead.

Alex Kramm
Analyst, UBS Securities LLC

Q

Yeah. Hey. Good morning, everyone. Just maybe on the index business, thanks for the – I think they're new disclosures in terms of the ASV there. I know it's small in the context of the company and the segment, and it's obviously small relative to a lot of the other bigger index players.

But, Lynn, can you maybe help us with the revenue model and how that business breaks down? I mean some of your competitors, obviously, help us with how much is driven by EPS and asset-based fees. How much is data, which I know in fixed income is important. And maybe even some opportunities around derivatives trading, which maybe could materialize over time.

So just help us a little bit how that business breaks down and where you see most of the opportunities? Is it just a play on ETFs? Or are there other bigger opportunities that you can monetize in multiple ways?

Lynn C. Martin
President-Fixed Income & Data Services, Intercontinental Exchange, Inc.

A

Yeah. Thanks for the question, Alex. It's a great question. I think we see the opportunity for indices in multiple areas. Particularly in fixed income, the indexation opportunity could be anywhere from acquiring our data, acquiring data subscriptions, allowing firms to make their own custom indices, giving us the opportunity to calculate those indices to provide intraday snapshots for those indices or real-time versions of those indices, provide analytics, but also provide benchmarks.

Obviously, the ETFs that I mentioned in my prepared remarks that have selected us as their destination for transition business, selected us from a benchmarking perspective. But in fixed income, increasingly firms are also looking at our high-quality underlying data, the fact that we're able to publish that data in a real-time basis which allows them to manage the real-time risks of the fixed income ETF market.

So from our perspective, we think there's opportunity across the spectrum, not just on the ETF AUM side, but also on the underlying data side as well as the services around it, like our custom index tool.

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

And Alex, it's Warren. So, in terms of sort of the revenue mix, it's similar to what you're familiar with the peers and that it's a mix of the subscription fees and then asset-based fees that are based off of those ETFs. And so, I think if you think about some of the growth we've seen there, it's been all of that. But I think the ETF side of that has been where we've been leading in terms of the growth. So, hopefully, that helps you understand the mix a little bit more.

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

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Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks. Good morning. Two questions, I'll get back in the queue for the second one. But I just wanted to touch on energy, sort of a longer-term question for either Ben or Jeff. But as the market slowly transitions to cleaner energy and environmental products, how do you see that longer-term transition playing out in your overall volumes versus your more traditional energy products? So, this would be both for nat gas, clean energy, and the environmental suite. And I appreciate, Warren, that you said the RPCs are much higher on the environmental side. So, that sounds like it'll be a smoother transition from a revenue perspective. But just to get sort of your thoughts on how many years you think it would take for the environmental and clean energy suite to match the core energy franchise, if that's a possible speculation to make.

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

Thanks, Brian. This is Ben. I'll take this one. So, when you think about our portfolio and it was threaded through your question there, I think you appreciate the fact that we've built the most diversified platform that there is on the planet to help customers really go through this energy transition. We provide products, everything from coal to oil to natural gas to LNG and to the environmental markets, and in all those sectors, we are the lead provider of services, helping customers within each of those segments, but then also as they're transitioning towards a cleaner environment, cleaner fuels, helping them along that journey, manage their exposure to price risk.

We're seeing underneath each one of those segments, we're still seeing a lot of demand for new products. So, you take for example just what's happened in oil. We've had a ton of innovation that's happened in oil to help the Middle East and Asia Pacific commercial customers, where we were selected to launch the Murban Crude Oil contract to enable users to be able to have a better price mechanism for pricing Middle Eastern oil going to Asia. You have the recent development that we announced with the Midland WTI American Gulf Coast crude contract is being launched with two huge commercial partners in Magellan and Enterprise that will be launched early next year to provide a much better way to price WTI Midland crude that's at Houston and not constrained by the infrastructure constraints that are in and around Cushing.

You also see – you may have seen a recent consultation came out in the industry by us and as well as our partners in S&P Platts to look at further evolution of the Brent contracts in adding new sources of crude, such as Johan Sverdrup, and very importantly, the potential for WTI Midland basis Houston to be added into the Brent complex, further solidifying that as the global index for oil. I went through in the prior question, all the things that we're doing in the environmental complex to grow that and we have a significant lead in our global natural gas and LNG franchise as we mentioned in the prepared remarks that continues to grow year-over-year. So, we feel we're very, very well positioned to help customers along this journey and we'll continue to partner very closely with them to do so.

Operator: The next question will come from Patrick O'Shaughnessy with Raymond James. Please go ahead.

Patrick Joseph O'Shaughnessy
Analyst, Raymond James & Associates, Inc.

Q

Hey. Good morning. So, while your listings revenues are growing, your growth rate has lagged out of your primary competitor. Can you speak to the current competitive dynamics in your listings space?

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Jeffrey Craig Sprecher

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

A

Sure. Well, first of all, the New York Stock Exchange floor was closed for a significant period of time during COVID. So, part of the allure and the marketing of the New York Stock Exchange is the opportunity to physically be in our building and ring the bell. So, we're very, very happy that Stacey and that team there navigated very difficult conditions on COVID to run the entirety of the business and we're really pleased now that the floor is open. I believe we're doing 17 IPOs this week, just to give you a sense of how we're doing now that the business is back running in its physical form.

Beyond that, we continue to be the leader of large capital raising, there's a cost in looking for listings, you can look at the revenue side that you're pointing out, but there's a cost, there's a marketing cost, and we're very disciplined about our return on invested capital and how we deploy capital, part of the theme I think of some of the things that we've talked to you about on this call, and we don't pursue listings where we don't see that the ROIC is there for our shareholders. So, some of it is calculated on our part and some of it is really that we've been at a bit of a disadvantage until the floor and the business itself was able to be back at full occupancy.

Patrick Joseph O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

Q

Thank you.

Operator: The next question will come from Kyle Voigt with KBW. Please go ahead.

Kyle Voigt

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Hi. Good morning. Maybe if I can just touch on the credit trading market. There's always been some thought that maybe you could really put the pieces together from IDC to the two retail trading businesses that you bought to ETF Hub and kind of build something for the institutional trading market within credit. Investors have obviously been focused on that, because of the electronification going on that market, which you've been historically very good at doing electronifying markets.

So, I guess the question is really like, is it too late given the success of some of those competitors to think about eventually launching something more towards institutional trading as being like a material revenue driver for you? And I guess why hasn't it been a bigger focus to launch in that market? We've seen continued really strong revenue growth from some of your peers and even from some small players that weren't material three or four years ago in the market.

Lynn C. Martin

President-Fixed Income & Data Services, Intercontinental Exchange, Inc.

A

Yeah. That's a great question. This is Lynn. Thanks for asking the question. We continue, as I mentioned earlier – now that we've put the execution business in the same vertical as the data business, and you have the macro forces of the market continuing to electronify data and the transparency that data provides, particularly on a near real-time basis is going to be a key driver of that electronification. We've made investments since we acquired the two retail businesses that we did in uniting the technology associated with those businesses and we're starting to see the fruits of our labor and penetrating the institutional market is really the portfolio trading activity that you've seen more meaningfully pick up starting towards the end of Q4 last year and then throughout this year.

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That leverages our new technology, that leverages our data assets, and that's very much institutional driven, and we're seeing increasing demand for those services as portfolio auctions continue to make up a larger portion of the TRACE prints that go through every day. So, that's really where we see the opportunity and the start of the opportunity to bring together the technology that we've built and the data assets that are continuing to deliver double-digit growth around the electronification of this asset class.

Operator: Your next question will come from Michael Cyprys with Morgan Stanley. Please go ahead.

Michael J. Cyprys
Analyst, Morgan Stanley & Co. LLC

Q

Hey. Good morning. Thanks for taking the question. Just wanted to ask on the Mortgage side as you're digitizing mortgage workflows, maybe you could just talk a little bit about how much of that is in the cloud and some of the vendors that you're using there versus what you guys are insourcing? And then, more longer term, as you're looking out, what's the potential to migrate the Mortgage workflows over to a blockchain? What sort of opportunity is that? What would that entail? How easy of a lift or not would that be to do that?

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

Thanks, Michael. This is Ben. So, the business has – even before we acquired it, has had a strategy for the loan origination side of the business to move more and more cloud oriented, and that's one of the things that, Jeff and I've mentioned on prior calls, gave us conviction in doing the deals. They had made some substantial investments that have moved the business to the cloud. If you look at other parts of our overall mortgage origination network, everything from the point-of-sale to the manufacturing process that I was just talking about, then all the way through to closing and the secondary, most of the aspects of that are cloud-oriented. We have a mix of some third-party service providers that are providing some of the infrastructure in there and we also have major data centers ourselves that are hosting pieces of this.

So, our strategy is definitely to move more and more in that direction. We already have moved for significant parts of the business to that and it's an area that we're going to continue to invest. Quite frankly, it's one of the things that is leading to a lot of the success that we've had in sales that

I've mentioned in the second half of last year and in the first half of this year, exceeding our models is that, if you look across our entire Mortgage ecosystem, we're providing a service somewhere along our network in our cloud-based network. We're providing at least a service to almost every single mortgage participant that's out there. So the ability to engage with them, show them the value that we can provide on our network, gives us a great platform to then go ahead and cross-sell other services, which is really fueling a lot of the additional growth that we've seen.

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

A

I'll just mention on the blockchain. One of the dilemmas, if you will, for the mortgage industry is that it's highly regulated and there's a tremendous amount of data required to write a mortgage. And that data for regulatory purposes does need to be stored for some period of time and be accessible to third-parties to audit.

And so right now, probably the best – a lot of that is still analog and paper-based and is moving digital, and we're driving much of that digital adoption. But right now, probably the best use of the blockchain would just be to put a hash as to where those records are located, to make it easier for third-parties to know at all times where the

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records lie, as opposed to using the blockchain to store those records, which still are in the early stages of moving to the cloud, as Ben said.

Operator: The next question will come from Simon Clinch with Atlantic Equities. Please go ahead.

Simon Aistair Vaughan Clinch
Analyst, Atlantic Equities

Q

Hi, guys. Thanks for taking my question. I was wondering if you could just dig a little deeper on the recurring – well, actually just for the Mortgage Technology business overall, the recurring revenue stream is performing really nicely. And I was wondering if you could talk about the market share you have on the loan origination side? And how that feeds through to that recurring stream over time?

But also how you're progressing along with your pipeline of additional services that you're going to be laying on top to increase that revenue per loan? That should help us sort of model this business over next few years when we're looking at on that kind of per loan basis.

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

Thanks for the question, Simon. This is Ben again. So as I mentioned in the first question that was asked, we have – since acquiring the business have had a very concentrated effort on, how do we focus on that recurring revenue stream? How do we look at that subscription base and really start to, where we can in certain parts of the business, shift revenue more towards subscription? Especially as you're in this high-volume environment that we've been in. It's a great time to do that, to shift it towards – more towards subscription, and for some parts of the business, less towards transaction. That's more oriented towards the loan origination side and that AIQ business.

So in those two parts of the business, those are areas where we have had a concentrated effort of moving customers that direction. And to give you an example, as that AIQ business on the data and analytics side, it historically was 100% transaction-oriented. And we have moved it very significantly towards subscription revenue both for every new customer that comes on the platform as well as renewals that are coming on.

We are seeing – to the answer of market share, we're seeing record sales continue. As I mentioned it multiple times that the second half of last year was a record and Q1 and Q2 has exceeded our expectations. All that is continuing to gain market share for us and for the business. As we implement customers, that feeds into new subscription revenue, that feeds into the part of the beat that we had this past quarter, as well as shifting more of the mix toward subscription.

The other side of it is there are certain parts of the business that are transaction-oriented. And we are continuing to innovate new solutions and new opportunities to capture new transactional revenue that's not happened before even for us or for the industry.

An example of that is, I mentioned last quarter, we'd be launching our hybrid eClose. We've gone ahead and launched that. So that's a complete digital closing room that interconnects the consumer to the lender, to the settlement agent, so that all documents, all collaboration, all communication and the entire closing process can be done digitally. We just launched this. And we already have 55 customers out of our 2,000 in the implementation process. As those get implemented, that will be new transaction revenue that will be coming through to us.

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So that's another example. And then another example that Jeff had mentioned in his prepared remarks is the interconnectivity between – that we see between data on the Mortgage side of the business flowing through to our Fixed Income and Data Services business, where we're taking transactional data out of the Mortgage side of our business to help enhance and improve our mortgage-backed securities prepayment and valuation models, where we are a leader in providing that and further enhancing those models with real transactional data that hasn't happened before.

Operator: And the next question will come from Alex Kramm with UBS. Please go ahead.

Alex Kramm
Analyst, UBS Securities LLC

Q

Yeah. Hey. Thanks for letting me squeeze in a couple follow-ups here. Just on the Mortgage side, two things actually. One, on the costs side, appreciate that obviously you're building a business for the long-term and you're shifting to more recurring as you just mentioned. But clearly, you see the transactional side turn a little bit.

So just wondering to what degree they are actually potential offsets that you're thinking about as maybe those transactional revenues come down, is there something you do on the expense side? Or is that going to continue to grow as you invest?

And then, for Jeff, since you just – we talked about this interconnectivity between the different businesses, on the Mortgage side, Joe, at your mortgage industry conference a few months ago made this off-the-cuff remarks that you're going to be working together closely and maybe there's room for Mortgage trading down the line with your Exchange business. So, just wondering to what degree that this is just the long-term dream or if there's actually something behind the scenes that you're already working on and what the opportunity set could be there? Thank you.

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Thanks, Alex. It's Warren. So, I'll hit on your expense question quickly first. So, there is a degree of variable expenses within that business. But I think the way you want to be thinking about this is, look, this isn't about a second half refi environment. This is about a 10-year growth opportunity for us. And so, that's where we think we can double revenues over the next 10 years or so. So, we're going to invest through – however that cycle plays out, if it does play out, we're going to be investing through it. That was part of the guidance we gave at the beginning of the year where we said about $45 million to – $40 million to $45 million of incremental investment. I think you'll see that start to sort of slow step up as we move through the year and that's going as planned. That's all part of the planned investments that we've made and we've communicated to you guys.

But I think $1.2 billion, just to make there on that as well is that one of the benefits here that Ellie Mae and ICE Mortgage Technology has is being part of the larger ICE platform is just the diversity that ICE brings to them. So, as Jeff said in his prepared remarks, it's in all-weather stock. And so, as maybe the mortgage cycle plays out, you've got other things in other areas of the business doing well. And so, it really gives us the ability to invest through those cycles and maybe where a standalone competitor or peer wouldn't be able to do that. So, I think – and ultimately that puts us in a better place at the other end of things. So, again, it's about a 10-year opportunity against a $10 billion TAM where we're only about 10% of that today. So, you should expect us to continue to invest in that business as we kind of move through the next couple of quarters.

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Jeffrey Craig Sprecher

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

A

And regarding future ideas, so Joe, who you mentioned has joined our management committee which also contains all the people that you've heard from on this call and we run the business collaboratively, so that we can work on this interconnectivity. What you've heard Ben talk about on this call is really hooking up what we would consider the cash market in a traditional market, the origination market of actually producing a mortgage for a consumer. And for the first time now, we've announced that we're hooking that to the secondary market through Lynn's business of taking that data to help with mortgage-backed securities.

Our sense is that the Mortgage market, while it is regulated, it's likely to continue to get more government attention as it becomes more transparent. It's largely for many people in government a mechanism for wealth creation in the sense of people building equity in a home. It's also interest rate sensitive as a number of the questions have alluded to here and there are maybe opportunities for government to influence or touch interest rates for certain segments of our society. And as the data and the transparency of where houses are being bought and refinanced and where wealth is being created, as that becomes more transparent, we really believe that the business is going to continue to evolve around government policy and that is going to make its way, trickle its way into the secondary trading market. And we will be uniquely positioned with data and information about the changes that are going on in the cash market to help influence that secondary market. And it doesn't mean we'll host one of those or use other assets, potentially, that's part of why we wanted to get into this ecosystem and it's part of our goal to build an all-weather company that will perform in every environment.

Operator: This will conclude today's question-and-answer session. I would now like to turn the conference back over to Jeff Sprecher for any closing remarks.

Jeffrey Craig Sprecher

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

Well, thank you, Shaun, and thank you, all, for joining us this morning. We look forward to updating you again soon as we continue to execute on these really interesting and exciting growth opportunities that we laid out for you today. So, otherwise, I hope you'll have a great day.

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

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