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Intercontinental Exchange, Inc. (ICE)

Q3 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

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

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

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

Today's call may contain forward-looking statements. These statements, 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, third 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 equivalent GAAP term in the earnings materials. When used on this call, net revenue refers to revenue net of

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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, MC. Good morning, everyone, and thank you for joining us today. I'll begin on Slide 4 with some of the key highlights from our third quarter results. Adjusted earnings per share totaled $1.30, up 34% year-over-year, marking the best third quarter in our company's history. Net revenues totaled a record $1.8 billion, and on a pro forma basis, increased 11% versus last year, with all three of our business segments contributing to the strong year-over-year growth.

Total transaction revenues grew 13%, while total recurring revenues, which accounted for nearly half of our business, increased by 10%. Third quarter adjusted operating expenses totaled $755 million, including $35 million related to Bakkt, which after successfully completing its merger with Victory Park recently began trading on the NYSE.

Adjusting for Bakkt, third quarter operating expenses would have been $720 million, in the middle of our guidance range, while our adjusted operating margin would have been 60%, up over 100 basis points year-over-year.

Looking to the fourth quarter, we expect adjusted operating expenses to be between $737 million to $747 million. Relative to the full year outlook provided on our second quarter call, the fourth quarter is now expected to include approximately $10 million related to the Bakkt sub period and $10 million to $15 million of performance-related compensation as we expect to reward our employees for their contribution to the strong results we are once again on track to achieve in 2021.

Record year-to-date free cash flow has totaled nearly $2 billion. These strong cash flows along with the divestment of our $1.2 billion stake in Coinbase has enabled us to reduce leverage to under 3.25 times at the end of September, nearly a full year ahead of schedule. As a result, we expect to resume share repurchases, including up to $250 million in this year's fourth quarter. We anticipate updating you on our 2022 capital return plans early next year.

In addition, we announced in October that we have agreed to sell our stake in Euroclear for €709 million, or approximately $820 million. We expect to determine the use of Euroclear proceeds as we approach closing, which we expect will be, will occur in 2022.

Now let's move to Slide 5, where I'll provide an overview of the performance of our Exchange segment. Third quarter net revenues totaled $959 million, an increase of 16% year-over-year. This strong performance was driven by a 30% increase in our interest rate business and a 38% increase in our energy revenues, including 34% increase in our oil complex, a 73% increase in European natural gas revenues and a 72% increase in revenues related to global environmental products.

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Importantly, total open interest, which we believe to be the best indicator of long-term growth, is up 18% versus the end of last year, including 11% growth in energy and 28% growth across our financial futures and options complex. Recurring revenues, which include our exchange data services and NYSE listings increased 6% year-over-year, including 10% growth in our Listings business. This acceleration in growth was driven by an increasing number of operating company IPOs choosing the NYSE, particularly in the technology and consumer sectors. Looking to the fourth quarter, we expect recurring revenues in our Exchange segment to be between $330 million and $335 million.

Turning now to Slide 6. I'll discuss our Fixed Income and Data Services segment. Third quarter revenues totaled $477 million, a 6% increase versus a year ago. Recurring revenue growth, which accounted for nearly 90% of segment revenues, also grew 6% in the quarter. Within recurring revenues, our fixed income data and analytics business increased by 5% year-over-year, including another double-digit growth in our index franchise, while other data and network services grew 9%, driven by continued customer demand for additional network capacity.

Looking to the fourth quarter, we expect that our recurring revenues will improve sequentially to a range of $415 million to $420 million, and that full year revenue growth will be approximately 6%, at the high end of our guidance range.

Let's go next to Slide 7, where I will discuss our Mortgage Technology segment. Please note that my comments on revenue growth are on a pro forma basis. Despite a double-digit decline in industry origination volumes, our mortgage technology business grew 7% year-over-year and achieved record revenues of $366 million. While third quarter transaction revenues declined slightly, they were more than offset by 33% growth in our recurring revenues, which at $143 million once again exceeded the high end of our guidance range and accounted for nearly 40% of total segment revenues.

Our outperformance relative to industry trends continues to be driven by increased customer adoption of digital tools across the workflow. While these secular growth trends have been a clear tailwind for our recurring revenues, there is also opportunity to drive accelerating adoption across our transaction-based businesses, such as our Closing Solutions, where revenue increased by 30% in the third quarter.

Looking to the fourth quarter guidance, we expect that recurring revenues will once again grow sequentially and be in a range of $147 million to $152 million. At the midpoint, this represents growth of approximately 25% year-over-year, which is on top of 20% growth achieved in last year's third quarter.

In summary, we once again had strong contributions from each of our businesses and across the asset classes in which we operate. We delivered double-digit growth in revenue, operating income and earnings per share. We also generated strong cash flows, reduced leverage to under 3.25 time, announced the divestment of our stake in Euroclear and successfully took back public on the NYSE. As we look to the end of the year into 2022, we remain focused on meeting the needs of our customers, continuing to drive growth and create value for our shareholders.

I'll now turn the call over to Ben.

Benjamin R. Jackson

President, Intercontinental Exchange, Inc.

Thank you, Warren, and thank you all for joining us this morning. Please turn to Slide 8. Our strong third quarter results were driven in part by interest rate volatility, global energy supply shortages and the continued adoption of our mortgage technology even amidst a decline in origination volumes. But more importantly, underpinning that performance are long-term secular tailwinds that will continue to drive growth across asset classes in

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macroeconomic environments. And with data and technology at our core, we have strategically positioned the business to benefit from these tailwinds across our platform.

In energy, the globalization of natural gas and the evolution to cleaner energy are trends that we began investing in over a decade ago. And today, cleaner energy sources, including global natural gas and environmentals, make up approximately 40% of our energy revenues and have grown 12% on average over the past five years.

With the rise of LNG, natural gas markets are becoming more global in nature and our European gas benchmark, TTF, is emerging as the global gas benchmark. Revenues in our TTF markets have grown 38% on average over the last five years, including 84% growth in the third quarter.

The supply shortages and price volatility that we saw in the third quarter are a peek into the future of what the energy transition could look like. Energy consumption is expected to double over the next 30 years, yet carbon emissions are expected to be reduced by half. This imbalance in supply and demand will introduce additional complexity and volatility to energy markets, which will drive greater demand for our risk management.

Our global environmental markets, alongside our global oil, gas and power markets provide the critical price transparency across the energy spectrum that will enable participants to navigate this evolution. Complementary addition to the risk management that our technology provides is our growing suite of associated data products. Leveraging our leading environmental markets, we built a suite of carbon indices, which allow global investors to access market-based carbon prices through a single investment instrument. And today, there are a growing number of ETFs benchmarking to our carbon indices and environmental markets.

Turning now to fixed income. The electronification of fixed income is a data-driven trend. We recognized this in 2015 when we acquired IDC and continue to invest and innovate in data and technology to further enable this trend. Our leading evaluated prices provide critical price transparency for nearly 3 million securities daily. By combining our proprietary pricing data with our comprehensive reference data, we've built innovative tools and analytics that will facilitate the continued electronification and automation of the fixed income markets.

Solutions like our continuous evaluated pricing, best execution and liquidity indicators, for example, provide pre-trade transparency needed to determine fair value. We also see the electronification of fixed income within the ETF ecosystem. Our quality pricing and reference data combined with forty years of history serves as the foundation of our growing index business.

We not only offer benchmark indices, but also calculation services, analytics and unique solutions like our custom indices. By servicing the entire ETF ecosystem through data and technology, we've been able to grow our index business double-digits for the past four years.

And finally, turning to our mortgage business. In the third quarter, we were once again able to grow our revenues even with industry volumes down double-digits. This continued outperformance is a result of executing against our strategy of leveraging our mission-critical technology and data expertise to accelerate the analog-to-digital conversion happening in the industry.

Part of that strategy is intentionally shifting more business to recurring revenue, particularly within our origination technology and data and analytics business. While we only recently began this transition, we've already seen strong client adoption.

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Another opportunity that we're executing on today is in our closing solutions. The demand for automation in the closing of a real estate transaction is increasing. We see this evidenced by the continued onboarding of new customers to our electronic closing room, and hybrid solution that we launched in the second quarter.

This month, we further advanced the automation of our eClose solution, which can save lenders hundreds of dollars per loan by leveraging additional technology and automation by adding eNote and eVaults. Our comprehensive offering and the efficiencies that it delivers, positions us well to execute on what we believe to be a $1 billion opportunity.

Within Data and Analytics, our AIQ solution leverages AI, machine learning and proprietary data from our origination platform to automate the steps in the loan manufacturing process. This automation could save lenders thousands of dollars per loan by reducing manufacturing time and complexity. Today, only a fraction of mortgage technology customers take our AIQ solution, and we continue to have strong sales success cross-selling to existing customers even if they're not on our loan origination system, including one of the largest depositories in the US.

And while still an early opportunity at under $100 million in revenue today, the efficiencies that our data analytics provide position us well to continue executing against what we think is a $4 billion opportunity. Flywheel effect that our leading technology and data provides combined with the cross-sell that our broad connectivity offers generates an array of opportunities for us to grow a business that at $1.4 billion today is only a fraction of the $10 billion opportunity.

I'll now turn the call over to Jeff.

Jeffrey Craig Sprecher

Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

Thank you, Ben, and thank you all for joining us this morning. Please turn to Slide 9. The third quarter extends our track record of growth. We once again grew revenues, grew adjusted operating income and grew adjusted earnings per share with strong growth from all business segments across asset classes, and amidst a dynamic macro environment. These results are a testament to the strength of our business model, positioning the company at the center of some of the largest markets undergoing an analog-to-digital conversion, and which together make ICE an all-weather name that generates growth on top of growth.

The diversity of our platform positions us to benefit not only from near-term cyclical events, but also longer-term secular growth trends. We've expanded into new asset classes, grown our addressable market and broadened our expertise, making our network significant and providing the opportunity to unlock additional growth by collaborating across businesses.

We recently announced another new product from the collaboration between ICE Data Services and ICE Mortgage Technology, called the ICE Rate Lock Indices. Leveraging anonymized and aggregated data from ICE Mortgage Technologies leading origination platform, this suite of indices provides a more comprehensive, accurate and timely reflection of residential mortgage rates.

Building on this innovation, like we've done in other asset classes, these indices provide an opportunity to create additional products like rich analytics and better pricing tools for lenders. The opportunity to turn raw, unstructured data into actionable insights abounds across our business. By taking alternative data sets and marrying them with our proprietary data, we've built solutions that offer unique insight into the market.

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Our climate analytics, for example, leverage our strength in the fixed income market with third-party geospatial data to help market participants better manage climate risk as a part of their overall investing and risk management processes. As ESG is increasingly becoming a component of investment portfolios, our technology and data expertise positions us well to deliver solutions that meet these evolving customer needs.

We have strategically assembled a portfolio to drive growth across asset classes and macro environments, and part of this strategy is capturing value by thoughtfully repositioning businesses. This year alone, we harvested our gain in Coinbase, announced an agreement to do the same with our stake in Euroclear, and unlocked Bakkt via a New York Stock Exchange listing. These transactions expose billions of dollars in value creation and position us well to return capital to shareholders while continuing to invest for our future growth.

It's collaborative efforts, innovative solutions and strategic capital allocation like this that have driven our growth for the past 20 years and which lay the foundation for continued growth well into the future.

Before I end my prepared remarks, I'd like to thank our customers for their business and their trust in the quarter. And I'd like to thank my colleagues at ICE for their contributions to the best third quarter in our company's history, topped only by our record quarter earlier this year.

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

QUESTION AND ANSWER SECTION

Operator: Thank you, [ph] sir (19:28). Ladies and gentlemen, we will now begin the question-and-answer session. [Operator Instructions] The first question we have is from Rich Repetto from Piper Sandler.

Richard Henry Repetto
Analyst, Piper Sandler & Co.

Q

Good morning, Jeff. Good morning.

Operator: Go ahead, sir.

Richard Henry Repetto
Analyst, Piper Sandler & Co.

Q

Good morning, Jeff, good morning, Warren. Can you hear me?

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

A

Yes, you're coming through clear.

Richard Henry Repetto
Analyst, Piper Sandler & Co.

Q

Sorry, sorry. So, my one question, Jeff, is the Mortgage Technology business, I think, surprised a lot of people. And when you zone in the closing, and you addressed a fair amount of it in the prepared remarks. But I'm just trying to understand the Closing Solutions and what are the new tools and trying to get better insight. It looked like

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that segment of the mortgage tech grew 28% or $19 million in a market that, at least incrementally, gets, seemed to get softer.

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

Yes. Let me ask Ben to address that since he manages that business for us.

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

Hi, Rich, thanks for the question. And, in summary, when it's part of the thesis we had in doing the overall deal is that we saw a long-term secular trend here for people to want to automate and digitize the mortgage process, continue to work on condensing the amount of time it takes to close on a real estate transaction.

And if you look under the covers of that Closing Solutions business, this is a business that's going to be very transaction-oriented. A lot of the costs associated to it actually go on the actual closing statement of the client themselves. So you're going to see that this is one of the businesses that's going to be heavily transaction-oriented. And if you look at the components underneath it, they're really driving the growth.

First part goes back to an acquisition we did a number of years ago, which is the Simplifile business. This is a business that electronic, does the electronic recording at the county of all the closing documents associated to a real estate transaction. In this COVID environment we saw, a year ago, the number of documents that were being recorded in the counties moving more and more away from paper and towards digitization and using our rails to do so and we continue to see that. So Simplifile is an input into that growth.

The second component there is a business that we've talked about many times, which is a business called MERS. We have a new bundled service offering there that takes a number of bespoke services that we had within MERS. So the registration of the loan itself, the registration of an e-note, which we continue to see e-notes being adopted more and more through the industry, as well as lifetime servicing transfers, all being, we bundled that all into one complete offering for our clients.

And then the third area that we've talked about on prior calls is the launch of eClose, which was really enabled by the combination of the expertise we have with MERS, Simplifile and the Ellie Mae business. And we combined that origination network that Ellie Mae has with the settlement agent network that the Simplifile business has. We've launched our eClose offering in the second quarter. We've enhanced that offering with our own proprietary e-signing capabilities in the third quarter. And then just this month, we launched our own proprietary eNote as part of our loan origination document set, as well as eVault. And we're continuing to see customers adopt those solutions.

I mentioned on the last call, we had 55 customers going through implementation. We now have 76 that are adopting it. And as that continues to ramp, I see that as another area that's going to continue to fuel growth in the closing line item, which is really enabling us to take a business that, 12 months ago, was a $200 million business to now if you look at the trailing 12 months, it's a $300 million business, continuing to go after that $1 billion TAM that we outlined.

Richard Henry Repetto
Analyst, Piper Sandler & Co.
Q

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Thank you. Very helpful. And I don't want to jinx you, Jeff, but you get a lot of things going right at this time, it appears. Thanks.

Operator: Thank you. The next question we have is from Ken Worthington from JPMorgan.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning. On Bakkt, that has had a good run here. And while ICE is a founder owner, my impression is Bakkt seems to be more of a financial than strategic investment at this point. I guess, maybe first, is that the correct view? And if so, what is the intent for that investment? And how do you see the utilization or investment of the proceeds given the significant value creation we've seen here, even in recent weeks?

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

A

Yes. Well, first of all, and I think, we'd like to position ourselves where there are analog to digital conversions, and there's an analog to digital conversion going on in the wallet. When I was a kid, I had a, I carried around a leather wallet in my pocket, and children today may never own a leather wallet. And so that analog-to-digital conversion is something that we wanted to be a part of.

I think we decided to create Bakkt as a separate brand and a separate entity because a lot of our investors seem to not see the coalescence of institutional and retail coming together. As access is increased through digital tools, and you can see it in the US equity markets, there's less distinction between a retail order and an institutional order, for example. And so that same convergence is happening across all businesses. And we were a little bit concerned that our investor base wouldn't appreciate that we could both be an institutional network provider and also a retail network provider.

And so we decided to give the company a separate brand. And it was, we just didn't feel like it was being appreciated inside of ICE and so we decided to give it a separate capital structure on the New York Stock Exchange.

Other than that, Bakkt will be doing its own earnings calls now as a public company. I'm no longer on the board. And so I don't want to ever speak for the company, going forward. But I will tell you that we do believe there's value creation in analog to digital conversions, and we're trying to place value there around the business. And that's part of why I see us as being an all-weather name that can grow on top of growth. We're locked up in the company as part of the IPO. We actually invested additionally as part of the spin. And so we're very, very high on that company and want to give it every opportunity to demonstrate its value to the market.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Right, great. Thanks very much.

Operator: Thank you sir. The next question we have is from Brian Bedell from Deutsche Bank.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

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Okay. Great. Thanks. Good morning folks. Let me just come back to the mortgage side and the third quarter performance there, again, exceptionally strong. Appreciate the answer to Rich's question on that.

But if you, if, Ben, you can talk about maybe parsing a little bit of the strong results between what you think are market share gains versus a lot of initial traction of the products that you mentioned, and the take-up of those products in the third quarter. And, I guess what I'm getting at is, obviously there's headwinds on origination and repurchase and refinance volumes. But should we be thinking of this third quarter as a pretty good base, especially in closing solutions to forecast from, on the transactional side?

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

Thanks, Brian. I'll try to go through some of the components of what we saw that drove that growth. And as we highlighted, the business grew double digits year-over-year, or sorry, so the business grew 7% year-over-year, and with a backdrop of a decline in industry volumes being double-digits. We also grew the business 8% sequentially, if you look at it from second quarter to third quarter against a volume environment that industry estimates would have down double digits as well.

And, if you look at each of the line items of what's happening there, you'll see that we outperformed not only in the aggregate, but also in each line item, what that transaction, what that overall transaction environment was.

In the origination line item, what you see there that I outlined in the last quarter is that, and was in our prepared remarks again today, is that part of our hypothesis of doing the deal is that we could take certain parts of the revenue base here and move it more and more towards subscription and take some of the volatility out of it.

And, the origination line item is one in particular that we are doing that with. And we've only done that with a very small percentage of the customer base. The average client is a customer, and is under contract for four to five years.

And, we just started this year with a small percentage of the client base. We've had a great pickup in customers being open to moving more towards subscription. So I see we have a long runway of that.

The other thing that's going on in that origination line is we're continuing to add more customers we're gaining more market share. And, as we implement those customers, those are new loans that are running through our system that we are getting some transaction volume on that we never saw before, that's offsetting some of the headwinds that you'd see in that transaction environment.

The second line item, data and analytics, it's the exact same story. We're taking a business, so this is the automation of the underwrite process through our AI tools. This is a business that was almost 100% transaction. Under the covers, we've been moving it more and more towards subscription. We're going to continue to do so, and we're having incredible success cross-selling this to clients.

It does take a little bit longer to implement customers on this solution because you're automating and deeply embedding your solutions into very complicated workflow in each of these businesses as you're automating underwriting processes. But we have a number of customers that are going live on the platform that we've sold. We continue to have great sales success. And, we have a number continuing to go through implementation. So, that's continuing to grow and offset any transaction issues you see there.

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And then on the Closing Solutions side, this is where I unpacked in the first question, a lot of the new innovation that we have, a lot of the changes that we made. Simplifile continues to gain market share really versus paper. Our eClose solutions, our brand-new innovation that the industry hasn't seen before, and each time a customer is subscribing to whether it's using our e-closing room, they're using our document set, they're using our e-note, they're using our vault, they can use either a component of those services or all of them. And each time they do that, we're getting incremental revenue on every transaction that's using that. And it's all greenfield. And there's very little competition in this space because of the unique position we've been in to build all this.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

That's great color. Thank you so much.

Operator: Thank you. The next question we have is from Kyle Voigt from KBW.

Kyle Voigt
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Great. Thank you. Good morning. If I could just follow up actually on the past, the last question. Just regarding the move to subscription on the origination side, specifically. You said a small amount of those customers have migrated to subscription. Can you help quantify that? Is that sub-10% of the customers or any numbers around that? And can you just talk about the pricing structure? Because I thought the recurring revenues on the origination side previously were really just fee minimums on volumes. But it sounds like maybe this is a bit different in terms of fee structure. So can you just kind of go over that and what the strategy is in terms of migrating these customers? Thank you.

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

So thanks, Kyle. So on the, so on the move to subscription to answer the first part of how much, how many of the customers have we done it with, it's well less than 10%. So it's a very small percentage of the customer base that we've been able to do this with.

As you can imagine, now is a good time to actually be engaging with customers to make this transition towards subscription. Because you're in a high-volume environment, customers are in this high-volume environment, they want to adopt more automation. They want to be able to continue to automate and be as efficient as possible against any of their competition. So they're continuing to add on more and more of our services.

So, when we go and engage in clients in this negotiation, we are willing to forgo some transaction revenue. But we're not foregoing all of it. We're just making it very open in our algorithm around, hey, if we're going to shift some to subscription, we are willing to give up some transaction, which is mostly the success fees on those transactions that we get. But we also remember the other transaction element that we do get is on our network. So any time a loan is coming on to our network and ordering services from third parties for the automation that we're providing there, we're collecting a fee for providing that benefit along those rails and that fee will continue as it is today.

Kyle Voigt
Analyst, Keefe, Bruyette & Woods, Inc.

Q

And sorry, are those multiyear contracts with some sort of fee escalator in them? I'm just trying to understand the, I guess, the leverage as you continue to gain market share of origination volume, et cetera. I guess, are you

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taking away some of the upside by moving to subscription and just how do you view that balance? And, thank you.

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

Sure. So as I mentioned earlier in the commentary, the average customers on four or five year agreements, that's not changing. So you can, and we just started this. So we just started doing this, this year, and we only did it with a subset of the customers that were actually going through renewal to really see what we learned in going through that and testing that our hypothesis, now theory, was right, and we've proven that. So we have a long runway to do this, and continue to feed more subscription revenue growth over time. In terms of are we taking away some of the upside, the way I see it is we're taking away some of the volatility in that line item. And where our upside is, is there's still a ton of new innovation that we're introducing to the marketplace between the e-close offerings that we have, that we've launched, between the automation of the underwrite and all the analyzers that we've been talking about on prior calls that we've been introducing to the marketplace. This is all brand-new innovation that is going to continue to drive transaction revenue growth in parallel to reducing the volatility and risk in some of the line items that we have, like origination, and data and analytics.

Kyle Voigt
Analyst, Keefe, Bruyette & Woods, Inc.

Q

That's very helpful. Thank you very much.

Operator: Thank you. The next question we have is from Dan Fannon from Jefferies.

Daniel T. Fannon
Analyst, Jefferies LLC

Q

Thanks. Good morning. So, wanted to just talk about kind of capital allocation now that you've reached your targets. And resuming the buyback, was curious about kind of next year and kind of interim time period with the idea around M&A still being part of your strategy versus buybacks, and kind of the capital allocation priorities here in the near term, or kind of the next, kind of, start of next year as well?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Yeah. Thanks, Dan. It's Warren. So right. So yeah, at the end of the third quarter, we got to under 3.25 times. That was kind of our target to resume share buybacks that we set when we announced the Ellie Mae deal back in August of last year. And so we'll start about, up to about $250 million this quarter. I think about that kind of being more of a partial buyback, because we do still need to get to three times eventually. And I think we're well on our way there. But, so we'll do a bit of a balanced pay down of debt alongside these repurchases over the next quarter or so. But I think once, thinking about next year, nothing's really changed in terms of capital return philosophy. I mean, it's the same, it's going to be the same thing as pre-Ellie Mae where it's return, all capital to shareholders that we don't need for investment or M&A to shareholders through buybacks and dividends.

So I think you should expect us to be thinking about it that way. And the only thing really that has changed here is that we've continued to grow free cash flow organically and then, of course, added Ellie Mae, which as you've obviously heard today and last couple of quarters seen that it's performing very well. So those would be the things that I'd be thinking about as you're kind of thinking about next year and capital return at the moment. Right now, we're kind of going through the 2022 budget process. So as we start to refine that, we'll be able to kind of give you guys a bit of an update in the next couple of quarters, so.

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Daniel T. Fannon
Analyst, Jefferies LLC

Q

Thank you.

Operator: Thank you. The next question we have is from Chris Allen from Compass Point.

Chris Allen
Analyst, Compass Point Research & Trading LLC

Q

Hey, good morning, guys. I was wondering if we could get some more incremental color on the energy business. Appreciate the kind of long-term outlook. Maybe how you think about the business near term, the potential for the current environment to persist? Any color just in terms of the health of the customer base, whether you're seeing new customers coming in. And maybe just on the LNG global opportunity, where you're seeing the biggest sources of uptake from a regional perspective?

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

Thanks, Chris. So when you look at our energy business, and we've talked about this on several calls, one of the things I think that's come to light through this is that we are very different than any of the peers that are out there in that we've developed very deep, liquid markets across the energy class spectrum. So whether it's coal, oil, gas, power, environmentals, we've invested heavily across that entire spectrum to give our customers the tools they need, to manage what we saw as a secular trend more than a decade ago of people moving towards cleaner fossil fuel such as natural gas, and towards environmental markets, carbon offset markets, compliance markets and the like.

Made several acquisitions, Climate Exchange 10 years ago. We've been building out our global natural gas suite, and we have now a business that's substantially different than any of our peers. We continue to invest, as we've talked about in prior quarters, our oil business, which is doing extraordinarily well with investments that we made in the launch of our Murban contract, that ICE Futures Abu Dhabi.

We have a new contract in the Gulf Coast that's launching in the beginning of next year in partnership with several big physical players. And we're in the middle of a Brent consultation where Midland WTI may be added into the Brent basket. So you have a whole bunch of dynamics going on across this, and it's because customers know they need to manage their risk through this transition.

And as I mentioned in my prepared remarks, I think the environment that you've just seen, you got a peek into what it's going to be for a long, long time. This energy transition is going to be very volatile. Everyone sees the secular trend where investments are pouring into renewable projects and projects such as coal are not getting invested in. And the fact is any energy supply source, I don't care what it is, is susceptible to supply chain events, weather events, for example.

If you have wind turbines and the wind's not blowing, it's not really easy to transition back to a coal-fired plant to get power back on the grid. So I foresee that we're in for a long ride of volatility. And now more than ever, the exchanges and the risk management tools that we provide are extraordinarily valuable to our clients, and it's important to us that we continue to engage with them as much as we ever have to continue to innovate.

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Chris Allen
Analyst, Compass Point Research & Trading LLC

Q

Thanks, [ph] guys (41:19).

Operator: Thank you. The next question we have is from Alex Blostein from Goldman Sachs.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Hi. Good morning, everybody. Thanks for the question. I was hoping maybe we could zoom out for a second. You guys provided a lot of details around the new segments. But if you look at ICE today, 50% of revenues comes from sort of recurring sustainable business. It's grown at 10% for the last couple quarters organically. And your guidance for Q4 implies about a 10% growth as well. So maybe just walk us through how you think about sustainability of that recurring revenue base and the growth algorithm that we could think about here on a multiyear basis? Thanks.

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

A

Yes, that's a great question. And, I think the one takeaway you should have is that, that has been an intentional evolution on behalf of the management team. We have been, we started the company really being highly transaction-oriented, and have always wanted to have a bigger recurring, growing base that we can rely on.

Part of our thinking of becoming an all-weather name is finding these analog to digital market conversions, but also creating a portfolio of businesses that we operate that are durable in different environments. We really wanted to get into the mortgage space, and really worked for over 10 years to put ourselves in that space because it benefits from a low interest rate environment, generally speaking.

We have other businesses like our interest rate futures and, to a certain degree, inflation-oriented products like commodities that tend to do better in high interest rate environments. And so, from a transaction standpoint, we wanted to be durable. We want to grow on top of growth and not be a name where people pile in when interest rates are going up and pile out when interest rates are going down.

And so, the more that we feel like we can lock into growing and recurring revenue, it gives investors a basis to know that we're going to continue to pay a dividend, that we're going to have capital to reinvest in the business. And then, if we can have transaction businesses that, regardless of macro environment, can do well. It just feels like a company that an investor should own. And that has been the strategy that we've deployed here for, I mean years now. And it's finally coming to fruition.

And the mortgage business, as Ben has mentioned, we've passed our colleagues with let's try to, to really build a durable subscription underpinning to a business that also has really interesting transaction opportunities because of changes in technology. And the same thing in emissions and in liquefied natural gas.

I know you and I've talked for years about our thesis that the natural gas market would globalize and that there would be global benchmarks, not regional benchmarks. And so, a lot of these metrics that you see in your economic model have been incredibly intentional on our part over a long period of time. And it's great that in this quarter, as was mentioned earlier, everything came together at one time.

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Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thank you.

Operator: Thank you. The next question we have is from Alex Kramm from UBS.

Alex Kramm
Analyst, UBS Securities LLC

Q

Yeah. Hey, good morning, everyone. Just one quick follow-up on the mortgage side again. A lot of good qualitative detail, but I think what's missing a little bit is some more quantitative updates here. And I guess, I know you don't give us any sort of numbers of mortgages that go in through your system a quarter, I know a lot of investors are asking for that.

But in absence of that, given that you're talking about a kind of like upsell, revenue upsell story, maybe you can at least help us, how much your revenue per mortgage has been changing over the last year or two? I mean, again, like if you're upselling, I guess, that revenue per mortgage should go up. So maybe some numbers you can put around that. And if you can decompose a little bit between pricing and certain new services, that would be very helpful, too. So hopefully, you can give us a little something here.

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

Yeah. Alex, there's a lot in that question. What I'll, one area I can unpack here is when you dig into that, what's leading to our subscription growth. So that's one of the areas of our thesis is that we can move more and more towards subscription in certain parts of the business. And if you look at the components of what's fueling that, one is the very deliberate, as customers are renewing, moving more and more towards subscription and the origination and the data and analytics line, that's one component.

The second is new sales. And this is about market share gain. So we continue to have a lot of success in continuing to add new customers onto our platform and cross-selling services to our existing clients is really the third. So in that cross-selling, the way to think about it, there's opportunities for us to expand the footprint with our clients, with the existing services that they have. We have clients that are using us, for example, on the loan origination side and the correspondent channel, moving to add the retail channel onto that, adding services like our Maven compliance service or our AllRegs offering. All of those are heavily subscription oriented, so we have a concerted effort to cross-sell.

And then the fourth is price. And our algorithm when we did the deal and our hypothesis is that on the subscription revenue growth, which is a big component of what we think is required to really hit that 8% to 10% long-term guide, that over that long period of time, each of those elements, the renewals, new sales, cross-selling and price, that'll be pretty much an equal distribution across those three, that you'll see over a long period of time is what's going to fuel that sustained subscription growth.

So that's, that's the area I'd highlight. There's, on the transaction area, I mentioned a whole bunch of the new products that we're rolling out, which we believe has an opportunity to continue to grow transaction revenue as well and offset declines that you see in industry environments.

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Alex Kramm
Analyst, UBS Securities LLC

Q

Okay. But on a historical basis, the revenue per mortgage going through your system should be up, right? I mean just thematically or not? So to come back to the question.

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

Can you repeat the question? We didn't follow it.

Alex Kramm
Analyst, UBS Securities LLC

Q

Sorry. But to come back to my original question, if I look at a historical basis, the revenue per mortgage [ph] growing (49:00) your system should have gone up over last year or so. I mean, I assume, again, if you don't have any quantitative right, but like directionally, given that you're adding services it should be up, correct? Or, you're not looking at it like that?

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

We don't necessarily look at it like that. But anecdotally, I'd say yes.

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Yes.

Alex Kramm
Analyst, UBS Securities LLC

Q

Okay. All right. Thanks again.

Operator: Thank you. [Operator Instructions] That was our final question. This concludes our question-and-answer session. I would now like to turn the conference over back to Jeff Sprecher for any closing remarks.

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

Thank you, Danae. And thank you all for joining us this morning. We look forward to continuing to discuss our all-weather strategies with you as our world economy continues to evolve. And with that, I hope you have a great day.

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

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