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Intercontinental Exchange, Inc. (ICE)

Q4 2024 Earnings Call

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CORPORATE PARTICIPANTS

Katia Gonzalez
Manager-Investor Relations, Intercontinental Exchange, Inc.

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

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

Christopher S. Edmonds
President, Fixed Income & Data Services, Intercontinental Exchange, Inc.

OTHER PARTICIPANTS

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Patrick Moley
Analyst, Piper Sandler & Co.

Benjamin Budish
Analyst, Barclays Capital, Inc.

Daniel T. Fannon
Analyst, Jefferies LLC

Chris Allen
Analyst, Citigroup Global Markets, Inc.

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

Alex Kramm
Analyst, UBS Securities LLC

Ashish Sabadra
Analyst, RBC Capital Markets LLC

Robin Holby
Analyst, TD Securities (USA) LLC

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MANAGEMENT DISCUSSION SECTION

Operator: Hello everyone, and welcome to the ICE Fourth Quarter 2024 Earnings Conference Call and Webcast. My name is Lydia, and I'll be your operator today. After the prepared remarks, there will be an opportunity to ask questions. [Operator Instructions]

I'll now hand you over to Katia Gonzalez, Manager of Investor Relations to begin. Please go ahead.

Katia Gonzalez

Manager-Investor Relations, Intercontinental Exchange, Inc.

Good morning. ICE's fourth quarter 2024 earnings release and presentation can be found in the Investor section of 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 2024 Form 10-K 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 prevailing GAAP terms 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, Chair and CEO; Warren Gardiner, Chief Financial Officer; Ben Jackson, President; Lynn Martin, President of the NYSE; and Chris Edmonds, President of Fixed Income & Data Services.

I'll now turn the call over to Warren.

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

Thanks, Katia. Good morning, everyone, and thank you for joining us today. I'll begin on slide 4 with a summary of our record 2024 results. Full year adjusted earnings per share totaled $6.07, an increase of 8% year-over-year, marking the best year in our company's history.

For the full year, net revenues totaled a record $9.3 billion and pro forma for the acquisition of Black Knight increased by 6% versus last year. Full year adjusted operating expenses totaled $3,810 million, an increase of roughly 1% year-over-year on a pro forma basis. It's worth noting that in just 16 months following the close of Black Knight, we have achieved run rate expense synergies of $175 million and now expect to reach our full synergy target of $200 million by the end of 2025.

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In addition, we are also raising our Black Knight expense synergy target to $230 million. This strong performance drove record full year adjusted operating income of $5.5 billion, an increase of 10% year-over-year.

Moving to cash generation. This record operating performance contributed to full year free cash flow of $3.6 billion, of which we returned $1 billion to shareholders through dividends, while also reducing our leverage to under 3.3 times EBITDA versus 4.3 times upon the close of Black Knight in late 2023.

As a result of the significant progress we have made on leverage, we now expect to begin repurchasing shares in the first quarter. Recall that we still expect and are on track to achieve leverage levels of approximately three times EBITDA, we will balance share repurchases with continued deleveraging until we reach this target, which we expect will occur later this year.

Moving to slide 5, I'll discuss our fourth quarter performance. Fourth quarter adjusted earnings per share totaled $1.52, up 14% versus last year. Fourth quarter net revenues of $2.3 billion increased 5% year-over-year, driven by transaction revenues of $1.1 billion and recurring revenues of $1.2 billion.

Fourth quarter adjusted operating expenses totaled $973 million, $4 million below the low end of our guidance range, driven by reduced marketing and legal spend, as well as lower customer acquisition costs at the NYSE.

Now let's move to slide 6, where I'll provide an overview of the performance of our Exchange segment. Fourth quarter net revenues totaled $1.2 billion, up 9% year-over-year. Transaction revenues of $883 million were up 13%, in part driven by record revenues across interest rates and our global energy business, which grew 38% and 16% year-over-year, respectively.

Revenues within our global oil complex increased 11% year-over-year, while natural gas and environmental products, which represent nearly half of our energy revenues, increased by 22% in the quarter and were up 31% for the full year.

In addition, 2025 is off to a strong start with January volumes increasing 21% year-over-year and total open interest up 11% year-over-year, including 13% growth in global energy and 17% growth in our interest rate business.

Recurring revenues, which include our Exchange Data Services and our NYSE listings business, totaled $353 million. The sequential decline in Exchange Data Services was largely driven by a one-time full year true up to our tape revenues at the NYSE, which we do not anticipate will repeat in 2025. As a result, we expect that Exchange Data and Connectivity Services revenues will rebound to the $240 million to $245 million range in the first quarter.

In our listings business, while less than half of global IPOs met the standards to list on our Exchange in 2024, the NYSE helped to raise $17 billion in new proceeds, welcoming 53 new operating companies including seven of the top 10 IPOs and nine of the top 10 best-performing IPOs.

Looking to 2025, we expect that recurring revenues in our Exchange segment will grow in the low single-digit range, largely driven by continued growth in our futures data services.

Turning now to slide 7, I'll discuss our Fixed Income & Data Services segment. Fourth quarter revenues totaled $579 million, including transaction revenues of $108 million. Within ICE bonds, lower tax loss harvesting activity relative to 2023 within our muni business offset growth in institutional corporates, while strong CDS clearing

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activity was offset by lower levels of member interest following two Fed cuts towards the end of 2024. Recurring revenues totaled a record $471 million and grew by 5% year-over-year.

In our Fixed Income, Data and Analytics business, record fourth quarter revenues of $301 million increased by 5% driven by growth in pricing and reference data and another quarter of double-digit growth in our Index business.

Other Data and Network Services revenues also increased by 5% in the fourth quarter driven by continued growth for both ICE Global Network and our consolidated feeds offering as well as continued strength in our desktop solutions.

Looking to 2025, and supported by an ASV that exits the fourth quarter up 5% year-over-year, we anticipate mid-single-digit growth in our Fixed Income & Data Services recurring revenues.

Please flip to slide 8, where I'll discuss the results in our Mortgage Technology segment. Fourth quarter Mortgage Technology revenues totaled $508 million, slightly above the high end of our guidance range.

Recurring revenues totaled $391 million. While down on a year-over-year basis, revenues improved relative to the third quarter, driven by growth in both our Servicing Solutions and our Data and Analytics business.

Similar to prior quarters, while the majority of Encompass customers renewed at higher minimums, the improvement in recurring revenues was somewhat offset by customers that reduced minimums at renewal.

Transaction revenues totaled $117 million, up 12% on a year-over-year basis, but, as anticipated, were down slightly relative to the third quarter due to seasonality in the purchase market, a dynamic that typically impacts both the fourth and first quarter of each year. It's worth noting that according to ICE Mortgage Technology, we continue to see signs of market stabilization as housing inventory continues to rise up 20% in 2024 and annual home price appreciation slowed to the lowest levels since 2011.

Moving to guidance for 2025. We anticipate that total IMT revenues will grow in the low single-digit to mid-single-digit range. The high-end of the range is underpinned in part by low-teens growth in industry originations volumes, which is similar to expectations set by the MBA, Fannie Mae and Freddie Mac, where the low end of the range assumes a more conservative origination backdrop that is flat with 2024 levels. At both ends of the range, we anticipate growth in recurring revenues due in part to a portion of the $55 million in total revenue synergies we have achieved beginning to come online.

Please flip to slide 9, where I'll provide some additional full year guidance. We expect 2025 adjusted operating expenses to be between $3.915 billion and $3.965 billion, an increase of roughly 3% year-over-year at the midpoint.

Similar to prior years, we expect to invest in our people, our technology and growth initiatives across our business, with these investments somewhat offset by synergies related to Black Knight.

Moving below the line, similar to last year, we currently expect the full year tax rate will be in the range of 24% to 26%. And finally, we expect full year CapEx to be in the range of $730 million to $780 million.

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As is typical in the case in years following an acquisition, CapEx is expected to be slightly elevated as we invest and reposition the acquired asset. In addition to these IMT-related investments, we will also make revenue-related investments in our data center footprint to meet growing customer demand for additional capacity.

In summary, we delivered a very strong finish to another record year of revenues, operating income and free cash flow and adjusted earnings per share. We invested across our business while also significantly reducing our leverage. As we kick off 2025, we're focused on once again, delivering growth and creating shareholder value.

I'll be happy to take your questions during Q&A, but for now, I'll hand it 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 10. Across our futures markets, we've worked for over two decades to build out the scope and depth of our multi-asset and multi-geography offering to allow for both flexibility and precision trading from wherever in the world customers choose to trade on ICE.

As a result, a record of over 2 billion futures and options contracts traded on ICE in 2024, marking the highest volume year in ICE's history, including a record 1.2 billion commodity contracts and a record 753 million interest rate contracts. This strong performance contributed to the 12th consecutive year of record futures revenue in 2024, which grew 20%, including 15% in the fourth quarter.

Across our energy markets, we saw the importance of investing in a diverse and globally interconnected energy platform that better serves the needs of an evolving and growing commercial customer base.

By working closely with our customers, we have built and continued to enhance our leading global energy network that delivers comprehensive risk management solutions, provides capital efficiencies and is positioned to grow alongside the continued evolution of global markets, all this, while providing the critical price transparency across the energy spectrum needed to navigate the energy transition and to meet forward-looking demand.

Over the last five years, revenue growth across our energy markets has averaged 14% growth annually with 2024 revenues reaching a record $1.9 billion, up 25% year-over-year. This strong performance was driven by record energy volumes and is a testament to customers' continued confidence in ICE as the global energy hedging venue of choice.

In our oil business, we offer key benchmark contracts such as Brent. As the global benchmark for crude oil, Brent prices roughly three quarters of the world's internationally traded crude and serves as the cornerstone of our global oil complex, which today includes over 800 locational and product spreads relied on by commercial customers. This innovation and evolution have enabled us to continue serving our global customers and to drive growth across the business, delivering record oil revenues in 2024, which grew 21% year-over-year. This strong performance was underpinned by the highest volume year for total oil contracts traded on ICE, including records across our Brent and gas oil benchmark contracts.

In addition, as trade dynamics evolve and become increasingly complex, customers not only are seeking liquidity in the major global benchmarks, but also in products that provide greater hedging precision. This dynamic is illustrated by record trading activity in our other crude and refined products in 2024 with volumes up 34% year-over-year, including records across our Platts Dubai and Murban contracts.

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Our global oil offering sits alongside our global natural gas markets, where the globalization of this commodity is underpinned by the rise of liquefied natural gas or LNG. The ongoing liberalization of the LNG market has put more natural gas in motion over longer distances with the greater number of touch points along the value chain from production to consumption.

At the same time, demand for natural gas continues to grow and likely sustainably for the foreseeable future. Trends that support this are the undeniable secular growth in overall energy demand, increased demand for data centers and the associated power that goes with it, and the move to gas as a cleaner fossil fuel source versus coal.

In essence, this evolution creates opportunities for new trading relationships to develop and adds an extra layer of complexity that fuels adoption to our global gas product suite. This was illustrated by record market participation in our global gas complex in 2024, which has increased nearly 30% since 2019.

As supply chains evolve and globalize, the quality of our expansive range of benchmarks is evident, with our natural gas business delivering another year of record revenues in 2024, increasing 30% versus last year. This strong performance was led by record revenues in our Title Transfer Facility benchmark, or TTF, which we have positioned as the Brent of natural gas, and plays a critical role in providing global natural gas price signals.

As a result, TTF continues to be relied upon by an increasing number of market participants with market participation and volumes both setting new highs in 2024 and each growing double digits on average over the past five years.

In Asia, where coal still accounts for nearly half of the region's energy supply, our Japan/Korea Marker, JKM, has seen market participation grow double-digits on average over the past five years, reaching a record in 2024 and increasing 27% year-over-year.

As a cleaner alternative to coal, natural gas has accelerated the global risk management needs related to the commodity and caused the markets across North America, Europe, and Asia to become increasingly interconnected. This dynamic was once again highlighted by JKM volume execution trends in the fourth quarter with two-thirds of JKM volume executed via the JKM-TTF spread.

In North America, as market participants continue to gravitate towards ICE's Henry Hub contracts for the liquidity ICE offers in longer-dated tenors, along with the linkage to our exclusive regional basis markets, volumes in our complex grew 30% year-over-year, including record volumes across our basis markets, which spans 70 hubs across North America, allowing customers to manage regional supply and demand dynamics.

Trading alongside our global oil, gas and power markets, our leading environmental markets, which were first launched nearly two decades ago, provide customers price transparency across the energy spectrum that is critical in navigating the clean energy transition. Here we've seen market participation grow double-digits on average over the past five years, including record participation in 2024, up 13% versus prior year. At the same time, record volumes across the complex were up 39% year-over-year, led by another record-setting year in our North American environmental markets.

These record volumes represent the equivalent of over $1 trillion in notional value for the fourth consecutive year and contributed to a 40% increase in environmental revenues in 2024 versus the prior year.

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In summary, the evolution of our energy markets is one example of how we continuously invest and develop customer-driven solutions across asset classes to drive value creation. Our record performance is a product of these investments, some that we've made more than a decade ago.

Turning now to our Fixed Income & Data Services business on slide 11. Driven by multiyear investments in both technology and data, our comprehensive Fixed Income Data platform continues to deliver compounding revenue growth.

Our position as a leading provider of price and reference data has served as the foundation for many innovative solutions, such as our rapidly-growing index franchise, a business we built through both organic and inorganic investments, including our acquisitions of IDC and the Bank of America Merrill Lynch Index platform.

In 2024, revenues in our Index business increased double digits year-over-year. A key driver was growth in ETF assets under management benchmarked to ICE indices, up 13% year-over-year. Collectively, the strong performance across our PRD and Index business drove 5% growth in our Fixed Income, Data and Analytics business in 2024.

In addition, we continue to see returns on past investments made to enhance content and functionality across our Other Data and Network Services business, which grew 5% in 2024 versus prior year.

As an example, within our consolidated feeds business, investments we've made to elevate and enhance our offering, including commodity and energy data, now available on our feeds, has led to accelerating adoption by large financial institutions, including displacements of larger multi-asset class incumbents.

This was a key contributor to the high single-digit revenue growth in this area in 2024. With content from over 600 data sources, as firms seek more high-quality data from a range of different sources in a cost-effective manner and access to new unique content, our competitive and comprehensive offering stands to benefit.

Finally, as we move forward, we remain focused on continuing to leverage our deep expertise in gathering and cleansing unstructured data to develop actionable insights and add transparency not only to the fixed income markets, but across asset classes. For example, in 2024, we announced the integration of our property and loan-level mortgage data sets with our property level climate risk metrics, covering more than 100 million US homes.

This solution improves transparency and facilitates risk management throughout the housing finance and property insurance sector, allowing customers to apply ICE's climate metrics to individual loans, properties, and entire portfolios, improving the visibility to the inherent climate risks in each.

We also went live with our MBS mortality indicator, which leverages data sets across ICE Data Services and ICE Mortgage Technology to produce daily trading signals for more than 900,000 agency and residential MBS pools.

Shifting now to our Mortgage business on slide 12. Like our Exchanges and Fixed Income businesses, ICE Mortgage Technology's products and network excel by offering a value proposition that enables efficiency gains for our customers. We target asset classes that are in the early stages of an analog-to-digital conversion because we believe these asset classes will benefit from greater automation and create strong network effects. This is no different in Mortgage, where we've constructed an unparalleled network that seamlessly connects key industry stakeholders within a single end-to-end digital ecosystem. That kind of connectivity in network is a hallmark of the ICE business model and one that, combined with our leading solutions, gives us confidence that we can grow a

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business that, at $2 billion today, is only a fraction of the $14 billion addressable market that's in the early days of an analog-to-digital conversion.

In 2024, we continued to make progress on the successful integration of Black Knight and executing on our strategy of relieving the pain points and inefficiencies across the mortgage workflow.

Starting with Encompass, we closed on 38 client wins in the fourth quarter as customers focused on modernizing their infrastructure and our workflow efficiencies. And to kick off the year, we're pleased to announce that Flagstar and Howard Hanna have signed on as Encompass clients.

In parallel, we delivered on several enhancements to Encompass during last year, including a launch of multi-channel support for web-based loan manufacturing, and are pleased to see clients are adopting this innovation.

We also unified our industry-leading marketing and sales automation solutions into one complete customer acquisition and retention suite. We also added a borrower-facing mobile application to support lenders on our platform. Then we embedded these into Encompass workflows directly, enabling our lender clients to efficiently identify customers to target with the right products at the right time and manage their leads through to closing. This helped to drive over 200 cross-sells of our customer acquisition suite into Encompass customers in 2024.

Along the same lines, we integrated data sets from Black Knight into Encompass, including property tax, flood, and closing fees, providing customers with more choice of service providers on our platform, and are pleased by the early traction across these offerings, executing on over 400 data cross-sells to Encompass clients in 2024.

Along the same lines and consistent with our approach of investing ahead secular growth, throughout 2024, we dramatically enhanced our ICE Product and Pricing Engine, or PPE, and look forward to showcasing this enhanced offering at our upcoming ICE Experience Event, an annual gathering of thousands of customers where each year we launch our new and enhanced innovations for our clients.

For MSP, roughly 80% of new client wins during the year were cross-sells to Encompass clients. We also continued to make significant strides in enhancing functionality designed to elevate customer interactions and experiences, including the rollout of our MSP Digital Experience or MSP DX.

At the same time, we enhanced and integrated our loss mitigation, customer service, and collections capabilities. These embedded tools within MSP not only streamline operations, but help clients prepare for the eventual increase in defaults and foreclosures.

Our customer service enhancements improved the customer experience, and as an example, our call prediction functionality uses artificial intelligence to analyze the account and provide a prediction of why the customer is calling, allowing the customer service agent to reach a resolution in decreased timeframe and reduce friction to the homeowner.

Lastly, our Actionable Intelligence Platform, or AIP, which is in the process of being rebranded as ICE Business Intelligence, provides robust analytical and reporting capabilities based on configurable suites for originators and servicers.

Originators will be able to view dashboards to manage all aspects of production, including marketing, sales, pipelines and closing through all channels, including retail, wholesale and correspondence.

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Servicers will have sophisticated risk management, compliance, and capacity planning tools that will help them better manage portfolios and coordinate activities across the enterprise. By delivering timely and actionable insights, our Business Intelligence platform will help enable financial institutions to stay agile and competitive in a continually evolving market, all while seamlessly integrating with existing systems for ease of adoption.

In that regard, we are pleased to announce that we signed a top five depository onto this service in 2024 and we continue to see other clients engage in this solution suite based on the efficiencies and revenue opportunities it can help uncover.

In summary, we are pleased to see the value of our comprehensive platform is resonating in the marketplace, and we remain optimistic about the long-term opportunity to accelerate the analog to digital conversion.

With that, I'll hand it over to, Jeff.

Jeffrey Craig Sprecher

Founder, Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

Thank you, Ben, and thank you all for joining us this morning. Please turn to slide 13. Over two decades ago, we launched Intercontinental Exchange, a name we chose to reflect our vision of better serving global markets with a mission to drive transparency and create workflow efficiencies for our customers.

The pursuit and execution of this vision first led us to energy markets, where at the time of our 2005 IPO on the New York Stock Exchange, we were purely an energy exchange, offering only a handful of products and on track to generate what would ultimately be $156 million in total revenue. Our goal then, as it remains today, was to build a platform that operated on a global scale and which had the asset class breadth to enable us to quickly and efficiently chase growth opportunities as they emerged around the world.

In the years since, our focus on leading technology, customer-driven product innovations, and operating efficiency has remained core to our strategy. We've built new technology from scratch, acquired old technology and refurbished it, and innovated all along the way, developing countless new products and content that seamlessly flow through a global distribution platform, enabling us to build on the success of our core businesses, while looking ahead to new opportunities.

In many ways, this is how we've built what I often refer to as our all-weather business model, one that drives growth on top of growth through an array of economic, political and regulatory environments, with 2024 marking our 19th consecutive year of record revenues, increasing 16% year-over-year to $9 billion.

Through deliberate organic and inorganic investments that we've made, some more than a decade ago and others in more recent years, such as our Midland HOU contract, our leading global energy network today spans more than 2,000 contracts.

It's a business that, as you've just heard, continues to flourish more than 20 years later, with revenues tripling since 2010 to a record $1.9 billion in 2024, an increase of 25% year-over-year on top of 28% prior annual growth.

Building on our energy business as the foundation, we've targeted an interrelated collection of markets to create a global risk management powerhouse that helps our customers manage the risks associated to both acts of nature, such as issues that affect commodity supply chain flows, and acts of man, such as central bank and cross-border trade policies.

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In 2013, through the acquisition of the London International Financial Futures Exchange (sic) [London International Financial Futures and Options Exchange], known as LIFFE, and subsequently combining it with our own local commodity exchange in clearinghouse, we broadened our offering to manage the risk resulting from both types of forces.

And in 2024, our commodity markets as well as our interest rate derivatives complex all traded at record levels, highlighting the key role that these contracts continue to play for global market participants.

Across our interest rate contract portfolio, diverging rate paths by central banks was a consistent theme throughout 2024, contributing to record revenues, which increased 30% versus 2023, including 38% growth in the fourth quarter. These results highlight the strength of our multicurrency European, UK, and Swiss interest rate markets, including the key benchmarks Euribor, SONIA, SARON and Gilts.

In 2015, our acquisition of IDC proved to be instrumental and laid the foundation for our move into fixed income markets and the development of a comprehensive platform that has since evolved into nearly 500 unique institutional-grade data products, one that continues to deliver compounding revenue growth as these markets automate and as passive investing grows.

In our Index business, ETF AUM benchmark to our indices has grown to $648 billion at the end of 2024 from less than $100 billion in 2017, a key driver of the double-digit average annual revenue growth over that timeframe.

Fixed income and its related data is an area where we continue to make strategic decisions to position ourselves for success. For example, in 2024, we announced our intention to launch a clearing service for all US treasury securities and repurchase agreements, leveraging our infrastructure and expertise in centralized clearing.

And in early January, we announced our acquisition of the American Financial Exchange, or AFX, an electronic exchange for direct lending and borrowing for American banks and financial institutions.

AFX has focused on regional, midsized and community bank customers, covering many of the same customers that we serve through our Mortgage Technology network, making AFX a natural fit at ICE and complementing both our mortgage network and ICE's growing index business.

Across our Mortgage business, much like our strategy in other asset classes, we're leveraging our data, technology and collective expertise to bring efficiencies to the entire mortgage manufacturing workflow. And as Ben pointed out, we continue to make strides executing against this strategy, digitizing the workflow from home buyer identification all the way through to the capital markets.

In 2024, we added many new clients to the mortgage network, while also deepening relationships with our long-standing customers. As we look to 2025 and beyond, the new US administration has pledged to increase US energy production, which could change the supply chain dynamics of the world's energy supply, and, resultingly, the global risk that will need to be managed.

We believe that energy demand growth, particularly in Asia, the power deregulation trends in Japan, increases in US energy exports, and the multi-decade non-linear energy transition, all point to the growing use of market-based commodity pricing and risk management tools.

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And with new governments in the UK and EU Commission, as well as in the US, we expect novel policy decisions that will impact inflation and employment, which could drive continued demand for interest rate risk management in 2025.

Also when thinking about the current robust AI investment environment, particularly in the US, coupled with uncertain central bank interest rate policies and the potential demands for energy by this sector, these trends could further the need for commodity risk management while continuing to stimulate trading in equity markets.

From helping our customers navigate the long-tail evolution of commodity markets to the digitization of fixed income workflows and automating mortgage placement, it's our operating expertise, leading technology infrastructure, and forward thinking that underpin the quality of the network that we operate, proving to be our competitive advantage and providing the opportunity to unlock additional growth by collaborating across customers and our own business units.

We believe that we're better positioned than ever to capitalize on these secular and cyclical trends across asset classes, and we remain focused on investing and executing on the many growth opportunities that are in front of us.

In summary, for more than 20 years, ICE has continually evolved to meet the needs of our customers and provide value for our stockholders. In that vein, 2024 marked our 19th consecutive year of record revenues, record operating income, and record adjusted earnings per share.

This consistent record of growth reflects on the quality of our strategy to diversify the business and position the company at the center of some of the largest industries undergoing analog-to-digital conversions, a strategy that has created an all-weather business model that is well positioned to continue to drive growth as it has for every year since we've been a public company.

I'd like to thank our customers for their business and their trust in 2024, and I want to thank my colleagues for the efforts that contributed to yet another record year at ICE.

I'll now turn our call back to our moderator, Lydia, and we'll conduct a question-and-answer session until 9:30 a.m. Eastern Time.

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QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question today comes from Ken Worthington with JPMorgan. Please go ahead. Your line is open.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning. Thanks for taking the question. When we look at the new client wins in mortgage, both on the origination and servicing side, there would seem to be a lot of new business getting up and running all at the same time, after a period of limbo between when Black Knight was announced and closed.

Can you give us a sense of the cadence of the big new customer wins going live for MSP and Encompass? Are they front-end loaded, back-end loaded as we think about this year? And how does the new customer wins sort of contribute to guidance that you gave us for 2025?

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

Hey Ken. This is Ben. I'll start and then Warren will probably take the last part of that question. So recall, we closed on Black Knight roughly 18 months ago. And since then, we have closed, as you highlighted, a number of very significant large financial institutions onto both Encompass and onto MSP.

We've also highlighted that it takes anywhere from 12 to 18 months for those clients to come online, get through all their testing. This is all absolutely critical infrastructure, as you well know. And then once they start to come online, they'll roll it out division by division. So it takes time to make these changes happen.

Because the deal closed about 18 months ago, we're right now in that window where, in 2025, we are going to have a number of clients that we closed in those windows coming live as this year plays out. And I think you're going to see it coming in and building as the year plays out.

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Yeah, Ken, I'd just add to that, too. That's right, and we will start to see those. That's what we talked to you guys about throughout the year, we'd start to see these impact 2025.

And part of the reason we saw some stabilization towards the fourth quarter in the recurring revenue is because some of these are starting to come online too. And so I think we're at a point where we can start to grow from here.

I think one thing just to call out, too, is that, while all of that's good, and we have that coming online, there are still a little bit of some headwinds. There is the Flagstar attrition that should happen towards the end of the year. That's probably 0.5 point in terms of an impact on our growth rate. And then we also still will expect some headwinds from renewals on Encompass as – particularly related to 2020 and 2021 vintage that you've heard us talk about throughout last year.

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A little bit more of that to go. That's probably, from a growth rate percentage, probably a low single-digit impact for us, but an improvement from what we saw last year. So there's some moving parts in there, but absolutely, as Ben said, we're starting to see some of the impact from those wins come online, and that will help us this year and then into next year as well.

Operator: Thank you. Our next question comes from Alex Blostein with Goldman Sachs. Please go ahead.

Alexander Blostein
Analyst, Goldman Sachs & Co. LLC

Q

Hey. Good morning, everybody. Thank you for the questions as well. I was hoping we could spend a couple of minutes on trends you're seeing in WTI markets within your oil complex. ICE made a nice progress gaining market share over the course of last year. It looks like trends have picked back up again on the market share trend versus your primary competitor there. So what's driving that? How durable that is? How do you expect that marketplace and that ecosystem to evolve as you progress through 2025 and 2026?

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

Hi, Alex. It's Ben. I'll take this one. We're pleased with the overall growth of our entire oil complex. It's done very, very well over the last several years now. And a lot of what, you know, I think, has fed into what's made our WTI successful is innovations that we launched a few years back. So one innovation in particular, was our Midland WTI HOU contract that we've talked about and highlighted. That contract is literally up 200% on a year-over-year basis to start this year and had a phenomenal year last year as well.

Another interesting data point on that Midland WTI HOU contract is that it's a truly physically delivered contract that's supported by a lot of the big oil companies. And the amount of physical deliveries that we saw on our contract are double what our peer saw on WTI.

So it's a testament to the fact that the physical underpinning and structural pieces of this market are very strong. And this is pricing Midland WTI oil basis Houston that's now also flowing into the Brent contract and also flowing into Europe as well.

So given all those dynamics, a lot of traders, when they're trading, they'll trade, as you know, they'll trade basis amongst other contracts. And the fact that we have Brent, we have the WTI HOU contract, and we have our own WTI contract, clients that want to trade this for maximum efficiency can trade all of those as a package or a subset of those as a package. And we think that's what's feeding into a lot of the growth in our WTI contract.

Operator: Our next question comes from Patrick Moley with Piper Sandler. Please go ahead.

Patrick Moley
Analyst, Piper Sandler & Co.

Q

Yes. Good morning. Thanks for taking the question. So I just want to follow up on the mortgage guide, the low to mid-single revenue growth this year. Warren, you said that I think the high-end of that would imply a low-teens pickup in origination activity, and that's in line with what the industry forecasts are currently projecting.

I think that growth number though is projecting around 30% growth in refi activity. So could you talk about how you're thinking about the dynamic between refi versus purchase activity next year just kind of through the lens of that mortgage guide that you provided? Thanks.

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Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Sure. Thanks, Patrick. So look, I think that that – based on where rates are today, that certainly to see that kind of refi growth might be a little optimistic, but we did want to incorporate that view into our guidance and that's why we do also give you a more conservative sort of low end of the range in terms of what things could look like. It's obviously difficult to predict, particularly the refi market and what you might see on an interest rate perspective and the impact there.

So look, I think we're seeing some improvement on the purchase side in terms of the fundamentals. I noted that in my script in terms of some inventory, more inventory coming on to the market, some price appreciation slowing and things of that nature. We'll have to sort of see how refis trend, and that will, as you know, largely depend on how the trajectory of interest rates.

So I tried to give you kind of a wide band in terms of what the year could look like from an origination perspective, but even within both ends of that band, I think we've got some good growth that's coming through. And importantly, the recurring revenues will start to grow too as well.

So hard to know exactly how that's all going to play out, but I think through that, we've got an opportunity here to continue to invest in the business, advance the industry, and really put our platform on a better footing as we move throughout the year.

Operator: Our next question comes from Ben Budish with Barclays. Please go ahead.

Benjamin Budish
Analyst, Barclays Capital, Inc.

Q

Hi. Good morning. Thanks for taking the question. Warren, I was wondering if you could give a little bit more color on the timing of some of the expense synergies. Curious, if you could kind of quantify what is the sort of year – thinking about the pacing of the expense synergies you're realizing this year, what is sort of the year-over-year benefit embedded in your full year OpEx guide?

And given the increased expectation for now, I think, $230 million, should we think about that as being layered in over the course of 2026 or sort of achieved towards the beginning of 2026, so we see a bigger year-over-year benefit? So just curious if you could help us with the sort of pacing of those savings?

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Sure. So I think as you're thinking about the impact of this year, obviously, we had a big year – well, really in 2023, so got to go back a little bit. And so a lot of the synergies, because we were very quick at the close of the deal to get these groups together and bring these groups together, we were able to realize a lot of the synergies in the third and the fourth quarter of 2023. And then, of course, a little bit in – more in 2024 as well.

Part of what you're also seeing as you kind of move throughout the year sequentially is that we're starting to invest in the business once we've gotten those organizations in the right spot. And so, there's a lot of that is in the run rate, if you will, already in terms of the synergies that we've spoken to.

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And so I think if you think about next year, there's a little bit of help there. Obviously, on a run rate basis, we've guided to about $25 million of help, some of that's going to come towards the end of this year, so it won't be necessarily fully run rate – have a full run rate impact this year.

And so as you're thinking about that, it will be a help. It's why, you're seeing our expense guidance overall kind of more towards the lower end of what the organic constant currency guidance in the past has been excluding synergies at 3%. So it's helping us a little bit there.

In terms of the go-forward and the $230 million, extra $30 million that we've added, a lot of that's going to come in later years, that's – a lot of that is related to systems and infrastructure and real estate and things of that nature, so it just takes time to position and get those cost savings out. So, no change to the timeframe necessarily in terms of reaching by 2028, but certainly an increase, of course, in the total amount we can achieve.

Operator: We'll go next to Dan Fannon with Jefferies. Please go ahead.

Daniel T. Fannon
Analyst, Jefferies LLC

Q

Thanks. Good morning. I wanted to follow up on the Fixed Income, Data outlook, mid-single-digit growth again. Can you talk to kind of the inputs there, whether it's pricing, new customer growth, new products? We can see the ASV, some good dynamics, I guess, ending this year. But can you talk about maybe any changes in demand trends or the outlook that's shifting as we think about 2025 versus last year?

Christopher S. Edmonds
President, Fixed Income & Data Services, Intercontinental Exchange, Inc.

A

Hi. This is Chris, and thanks for the question. What I would say right now is you're seeing a trend within the space of clients, probably more buy side than anything related where they are very focused on the number of vendors that they are doing business with and looking for the most robust catalog of services available, so they can limit the amount of investment needed in order to consume the data that they need to run the business and there's also a massive focus on predictability of cost, something we hear each and every day when engaging with the clients on that side.

So given our robust catalog, given the fact we're connected to most of these people, that is generating opportunities that we're seeing and probably as a headwind, if you are a smaller data provider that has maybe one or two of the segments that someone is looking for versus a much wider piece of that, so that gives us opportunity and looking forward. I'll turn the other over to Warren, who can talk about the numeric piece of it.

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Yeah, Dan. So I think, look, the guidance we gave is pretty consistent with the last several years in terms of what we expect and I think if you look at that ASV as we exit the fourth quarter, 5.4%, certainly sets up for another good year. And I think we'll have a solid year from both business lines within that recurring revenue – within the recurring revenues that we have.

And I think particularly, one thing that we don't always talk about a whole lot, but the Other Data and Network Services business, it's been around 5% the last few quarters. I think, that certainly can set up for a little bit of pickup as we move throughout the course of next year, in part because of some of the investments you've heard us talking about on the data center side.

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So very happy with where that business has ended this year and the setup for next year, both on the Other Data and Network Services side and the Fixed Income and Data and Analytics side as well, so again, another, I think, solid year coming in 2025.

Operator: Our next question comes from Chris Allen with Citi. Your line is open.

Chris Allen
Analyst, Citigroup Global Markets, Inc.

Q

Yeah. Morning everyone. Thanks for taking the question. I wanted to maybe follow up on the energy markets. I'm kind of curious how you think the new administration policies may impact the energy markets from your perspective, whether it's creating any new potential opportunities for your business moving forward or maybe potential headwinds? And then, Ben, any color just on you mentioned the opportunities in new trading relationships maybe in terms of what type of customers you are looking at there?

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

A

This is Jeff. A couple of things. First of all, we've talked a lot on this call already about our Houston WTI contract, which is really an export contract and we're hearing the administration say they want to amplify US production, which we think will affect the export markets and play well into risk management using that contract.

The other thing that we're beginning to hear a lot about from the administration is how sanctions might be used and tariffs on other countries. And again, we – that may affect the global supply chain for energy.

One of the takeaways from the European energy markets over the last few years was how quickly the energy markets are able to reorganize the supply chains and then we've been investing in the Middle East, in our Murban contract and in our Abu Dhabi Exchange, which we think the risk management dynamics around the changing supply chains can have a positive effect for that contract as well.

Operator: Our next question comes from Kyle Voigt with KBW. Please go ahead.

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

Q

Actually, maybe I could just follow-up on the prior question and continue discussion specifically on Dutch TTF. You've seen significant growth in TTF over the past few years. OI has doubled in the past two years alone. As you just noted, there was some – some of this has been driven by changes in supply chains post Russia-Ukraine, as well as growth of US LNG into Europe.

There have been some recent press headlines around the EU contemplated restarting Russia gas imports if there's a resolution to the war. I'm just wondering if you could speak to how that would potentially impact Dutch TTF and whether it changes anything with respect to the importance or utilization of that benchmark.

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

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Thanks, Kyle. It's Ben. We've built our business in all of the commodities that we cover as global businesses. And that's how we've differentiated ourselves with hundreds, if not thousands, of contracts around the world, to help customers manage their risks at the point of production and consumption.

And part of the reason that we did this alongside of partnering with our customers is that supply chains do evolve and they do change. And right now, we're in a situation where Ukraine has ceased all Russian gas going through the Ukraine into Continental Europe. Could that change? Yes, it could. But for us, when we look at the open interest trends in our contracts and look at the open interest trends in TTF, it's an incredibly healthy business, incredibly healthy contract for us.

If you step back to when the Ukraine war started, our open interest in that contract held in, but trading volumes went depressed for a little bit until the market kind of reset and supply chains reset. And then because, we believe, because the open interest held strong and continued to grow even during that window, that once the supply chain is reset, the market knew how to price and to think about supply and demand dynamics, that the contract has seen explosive growth. So we view it as a positive as these supply chains evolve and change via geopolitical issues.

Jeffrey Craig Sprecher

Founder, Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

A

And one other point that – this is Jeff. One other point that Ben alluded to in his prepared remarks was that, increasingly now we're seeing these global natural gas contracts trade as pairs. They're basis trades between geographies, and with TTF becoming a real benchmark, as Ben mentioned.

And so as the supply chain trades away potentially and moves around the world, we would expect that those pair relationships would continue to do robust volume. That's partly how the market has been managing these supply chain differences.

Operator: The next question comes from Alex Kramm with UBS. Please go ahead.

Alex Kramm

Analyst, UBS Securities LLC

Q

Yeah. Hey. Good morning, everyone. Maybe just a quick one here. You talked about the AFX acquisition a little bit in passing, and I know it's small. But maybe you can just give us a little bit more color on what you expect to do with that asset.

I mean you talked about some of the clients as in mortgage, obviously, its interest rates. So maybe you talk about your US interest rate ambitions more broadly, because you've talked about this over time, but you're not very big there. And then maybe for Warren, is there actually revenue contribution and where will that show up? Thank you.

Christopher S. Edmonds

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

A

Hey, Alex. It's Chris. So consistent with what we've done with other asset classes and other offerings around the history of ICE, it's making sure that we can find things to tuck in that where customers need.

And you look at the overlap of that customer base and how that product is being used, we do think there are opportunities there for us to expand the use of those services along the time and create a little bit more

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transparency for those current users and those within the mortgage space as a whole that may wish to use it in the future.

Certainly, it's another product that we have in the inventory for folks to use where they do not have to leave our ecosystem in order to go out and manage the risk they may be facing or manage book they have there. So it's still early days and putting that into the process, but we look forward to growing that like we have many other products throughout the history of the company as they fit hand-in-glove with other pieces that we have.

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

And Alex, this is Warren. So it's an immaterial amount of total revenue today. And so it's a small amount. I don't know if you'll see much of an impact. It will be in the Fixed Income & Data Services segment and the Exchange component of that would be on ICE bond side. And then the index component will be more on the – will, of course, be in the Index business, which is in Fixed Income, Data and Analytics business line.

Operator: The next question comes from Ashish Sabadra with RBC. Please go ahead.

Ashish Sabadra
Analyst, RBC Capital Markets LLC
Q

Thanks for taking my question. I had a question on the Mortgage business. How are the contract minimums on average for Encompass compared to the mortgage origination levels in 2024? Or another way would be how much do transaction volumes have to improve to get full benefit of the coil spring from that mortgage recovery? Thanks.

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

Hey, it's Warren. So, I think the way to think about this – well, let me back up. Right now, as we kind of move through this year, we still have the, I would say, the vast minority of customers or sort of loans from our customers that are above the minimum, so there's still a relatively small amount that are trending above the minimum.

But over the last several quarters, that's been improving, and actually, the last few quarters have been some of the best quarters in terms of the percent above the minimum that we've seen in a number of years. So we're heading in the right direction on that and that's in part because the market has gotten a little bit better. But then – and also, as you've heard us note on calls that the minimums have been coming down for a number of the customers as they've renewed. So that's been sort of a dual impact that's helping on that front.

I think, I'd point you back, in terms of how to think about the impact, I'd point you back to some comments that we've made a few quarters ago, which is, if we are in a 7 million to 10 million loan environment at an industry level, we'd expect revenues to be a couple of hundred million to up to close to around $0.5 billion in terms of incremental revenue in those two scenarios. And so, as we move into a more normal market, and for what it's worth, 10 million loans has kind of been the average over the last 30 years. The median has around 8 million loans, so as we move back towards a more normal market, you're going to certainly start to see that impact flow through a little bit more on the transaction side as that impacts those contracts.

Operator: The next question comes from Bill Katz with TD Cowen. Your line is open.

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Robin Holby
Analyst, TD Securities (USA) LLC

Q

Good morning. This is Robin Holby on for Bill Katz. And thank you for taking the question. We wanted to get your comments on interest rate volumes and open interest. Is there anything structural that you're doing or have done to drive the robust volume and open interest growth here? And where do you see the opportunities or potential headwinds for the rates business in 2025? Thank you.

Benjamin R. Jackson
President, Intercontinental Exchange, Inc.

A

Hi. It's Ben. We're very pleased with the growth that we've seen in our interest rate complex over the last couple of years, and even starting into this year, they're off to a fantastic start. So, we obviously have a multicurrency interest rate complex that we've built up. We continue to invest in options and development of options markets around all of our interest rate futures, which has also helped in the development of those contracts. And we continue to invest in making sure that we're getting the best market participants into these markets to create tight liquid markets for our clients. So, those are some of the things that we've done.

I think that as it relates to persistent interest rate volatility that's going on around the world, obviously, we had a bunch of administration changes around the world. Jeff alluded to in his comments and his prepared remarks around acts of man and the impact that has. So with the administration changes happening, settling in, we'll see what that means in terms of central bank policy and trade policies as they develop, all of which we think should feed volatility into the interest rate markets globally, and we're well positioned for it.

Operator: Thank you. We're out of time for further questions. So, I'll pass you back to Jeff Sprecher, Chair and CEO for closing comments.

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

Well, thank you, Lydia, for moderating the call. And thank you all for joining us this morning. We'll look forward to updating you again very soon. We're going to continue to innovate for customers and continue to drive this all-weather business model that we've been building. With that, I hope you'll have a great day.

Operator: This concludes today's call. Thank you very much for joining. You may now disconnect your lines.

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