03-May-2017

Intercontinental Exchange, Inc. (ICE)

Q1 2017 Earnings Call

CORPORATE PARTICIPANTS

Kelly Lynn Loeffler
SVP-Communications, Marketing & Investor Relations, Intercontinental Exchange, Inc.

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

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

OTHER PARTICIPANTS

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Michael Carrier
Analyst, Bank of America Merrill Lynch

Alex Kramm
Analyst, UBS Securities LLC

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

Vincent Hung
Analyst, Autonomous Research US LP

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Alexander Blostein
Analyst, Goldman Sachs & Co.

Christopher Harris
Analyst, Wells Fargo Securities

MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Intercontinental Exchange First Quarter 2017 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Kelly Loeffler, Senior Vice President, Corporate Communications, Marketing, and Investor Relations. Please go ahead.

Kelly Lynn Loeffler
SVP-Communications, Marketing & Investor Relations, Intercontinental Exchange, Inc.

Good morning. ICE's first quarter 2017 earnings release and presentation can be found in the Investor 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 the forward-looking statements, please refer to our 2016 Form 10-K.

In our earnings supplements, we refer to certain non-GAAP measures including adjusted income, adjusted operating margin, expenses, EPS, EBITDA, and tax rate. We believe our non-GAAP measures are more reflective of our cash operations and core business performance. You'll find a reconciliation to the equivalent

GAAP term in the earnings materials and an explanation of why we deem this information to be meaningful as well as how management uses these measures.

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. With us on the call are Jeff Sprecher, Chairman and CEO; Scott Hill, Chief Financial Officer; and Chuck Vice, President and Chief Operating Officer. I'll now turn the call over to Scott.

Scott Anthony Hill

Chief Financial Officer, Intercontinental Exchange, Inc.

Thanks, Kelly. Good morning, everyone, and thank you for joining us today. I'm pleased to report on our first quarter results which included solid volume and data revenue growth, continued expense discipline and increased capital returns. I'll start this morning on slide 4, which lists some highlights from the quarter. Data revenues grew 6% organically versus the prior year on a constant currency basis and increased sequentially from a strong fourth quarter. This reflects the strategic rationale of building out our data operations to capture our customers' increasing demand for information.

In our trading and clearing segment, average daily volume or ADV grew 4% and open interest grew 6%. Growth accelerated further in April and on a year-to-date basis both ADV and open interest are now 9% versus a year ago. Though currency and mix are impacting revenue, these volume and OI trends reflect continued demand for the risk management services our global trading and clearing businesses provide.

Next, I want to highlight that the NYSE continues to attract world class companies in a very robust IPO environment. Through April, over 85% all capital raised by the IPOs of U.S. operating companies happened on the NYSE, including five IPOs this past Friday. All of this helped us generate cash flows of $611 million which allowed us to return nearly $350 million to shareholders through share repurchases and dividends, the second largest quarterly capital return in our company's history.

During the quarter, we also continued to refine our portfolio which will sharpen our strategic focus and generate additional cash to support future investments, capital returns and deleveraging. Finally, I want to note that we look forward to seeing many of you at our Investor Day on June 2 where you will have an opportunity to hear from our extended management team. These individuals have deep expertise in their respective fields and their fingers on the pulse of the business lines they oversee. They will provide an in-depth look at how we are positioned to continue to grow and deliver strong returns for our shareholders.

Now let's move to slide 5 where I'll recap our first quarter consolidated financial results. First quarter revenues of $1.16 billion were up 1% year-to-year and up 3% on a constant currency basis. We will refer to revenue growth on a constant currency basis given the significant impact from the decline in both the pound and the euro on a year-to-year basis.

Adjusted operating expenses in the first quarter were $495 million. We remain on track towards our full year expense guidance and expect adjusted expenses in the second quarter between $485 million and $495 million. This includes a net reduction of around $10 million in expenses associated with the IDMS sale and the acquisition of TMX Atrium. Adjusted operating margins in the first quarter were 57%. Adjusted earnings per share were $0.74.

Next on slide 6, I'll discuss our data and listings segment. These largely recurring revenues comprise 54% of our consolidated revenues in the first quarter. Segment revenues grew 9% year-over-year on a constant currency basis and we expanded operating margin to 52% by delivering on our synergy commitment even as we invest in strategic growth opportunities.

Listings revenue grew 2% in the first quarter. More importantly though, as previously noted, we've had great success in a very robust IPO market through the first four months of this year. And, as you know, these current year wins drive listings revenue growth primarily in the subsequent year and generate revenue across trading and data as well.

Speaking of our data business, we had another strong quarter. On an organic constant currency basis, data revenue grew 6% over the prior first quarter. For clarity, we define organic revenue growth to exclude the net impact of acquisitions and divestitures that significantly impact the current period year-over-year comparison.

For the first quarter, organic growth excludes the first quarter 2017 revenues from the Securities Evaluations business and CMA. The table on the lower left portion of this slide shows the constant currency growth rates to which I'll refer for each individual business in the right-hand column.

Pricing and analytics revenues in constant currency increased 18% year-to-year in the first quarter. On an organic constant currency basis, revenues grew 6%, accelerating from 4% growth in the fourth quarter. We continue to benefit from high customer retention rates, new products, and increased value captures, coupled with a fully integrated sales team cross-selling to existing clients and adding new customers.

Next, our exchange data revenues grew 7% over the prior first quarter. We continue to see solid demand for our exchange data product and expect full year growth of between 4% and 5% on top of last year's 14% growth.

Finally, revenue in our desktop and connectivity category grew 3% year-to-year, reflecting demand for more capacity to consume our pricing and analytics and exchange data products. I'll pause here to note that with the completion of the sale of IDMS and the acquisition of the TMX Atrium business, we expect desktop and connectivity revenues to be around $12 million lower in each subsequent quarter this year.

As you can see, we continue to curate our data business to grow faster than the industry by targeting the areas of greatest customer demand. And, importantly, our annual subscription value, or ASV, entering 2Q is up 6% versus the prior year. Our organic growth and the synergies we are realizing from our acquisition integration will help us continue to deliver expanding and industry-leading operating margins.

Please turn to slide seven where I'll review our trading and clearing segment. Revenues were down 4% year-to-year on a constant currency basis. However, in our futures markets, first quarter ADV was up 4% versus a strong first quarter in the prior year. Open interest was up 6% versus the prior first quarter and we set open interest future records in rent, gas oil, heating oil, UK natural gas, cocoa, and MSCI indices during the quarter.

Finally, though equity market trends remain challenging, we have a number of initiatives underway at NYSE to enhance our leadership position, including the strategy we announced in January to diversify our market model and to list more securities on our floor-based markets.

Before leaving slide 7, I want to highlight that the second quarter is off to an auspicious start. April ADV rose 26% versus last April. Commodity ADV increased 7% in April, with oil up 12%. Financials ADV grew over 60% year-to-year driven by interest rates. And, importantly, open interest is now up 9% from a year ago, supporting our confidence in the continued demand for our product set and risk management tools.

I'll wrap up my remarks on slide 8. We generated over $600 million in operating cash flow during the first quarter. We used these strong cash flows to invest in our business and to return approximately $350 million to shareholders, including $229 million through share repurchases and $120 million through dividends. And, importantly, we recently completed the sale of our Cetip stake and those proceeds will enable us to meet our leverage target while continuing our share repurchases, including nearly $80 million already repurchased this quarter.

So, less than 18 months after closing the IDC acquisition we're generating strong data revenue growth, we've accelerated and increased our expense synergies, we've strategically enhanced our business, we've delevered and we've returned nearly $900 million through dividends and share repurchases. And, as we look ahead, we are on track to meet our 2017 objectives for growth, synergies, and integration milestones and capital returns.

I'll be happy to take your questions during Q&A but for now I'll turn the call over to Jeff.

Jeffrey Craig Sprecher

Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

Thank you, Scott. As you can see, the balance across our transaction and non-transactions segments is complementary, where trading drives data and listings drives trading. This comprehensive model has enabled us to provide a compelling value proposition for customers while steadily growing our cash flow and increasing our capital return.

You can see that balance on slide 9 with the valuable range of services we provide to support our customers' trading, investing, and risk management activities. We've strategically positioned ICE as the most global exchange operator with half of our profits derived outside the U.S. To achieve this reach, we've built a globally connected network of solutions for our customers, many of whom also operate on a global scale and who rely upon us each day for mission-critical services.

Through this network, we deliver a vast range of content that serves our customers across their workflow. We offer a diverse range of products through common technology across our worldwide exchanges and clearinghouses which enables us to scale our offerings into the provision of data services. Because trading, investing and risk management all require an increasing amount of information, we're extremely well-positioned to directly serve these growing customer needs. In addition, the predictability of our revenue model is increasing given the growth of our subscription based businesses, which improves our ability to consistently return capital while we invest in growth.

Moving to slide 10, we're focused on becoming a global leader in the provision of data services. We've demonstrated our ability to exceed the industry's growth rate by focusing on areas of opportunity as demonstrated by our year-over-year track record of growing data revenues on both an annual and a quarterly basis since 2010.

How have we done this? In part, our success is driven by a clear commitment to investing prudently to put the company in a position to benefit from the secular trends for increased data consumption that we've shown you over the last several quarters. In addition, we benefit from the growth of our exchange business coupled with new products, the addition of new customers, selling more to our existing customers and rationalizing our pricing across our wide range of solutions. This helps to ensure that we're highly competitive and contributing to earnings growth.

Our experience in operating exchanges gave us firsthand knowledge that data is an increasingly valuable part of the service that exchanges provide. In addition, with our roots in the over the counter markets and in clearing, we saw that analytics, indices and valuation services were becoming increasingly important products. We made some of our first investments in indices and valuation capabilities well over a decade ago, and we've continued to build on these. So, when we saw the opportunity to acquire Interactive Data, it was a rare opportunity to gain a foothold into an established set of proprietary data products and gain a dedicated sales force.

We believe that the market for data will continue to grow due to automation, regulation and increased risk management. Each of these requires more data to inform these activities. We're seeing a customer shift towards taking data via direct feeds and powering targeted applications with more flexible pricing packages as customers move away from traditional multi-asset class desktops.

That fits our approach to providing data solution given our vast array of proprietary data that we can bundle and sell directly. I think that we're lining up very well to meet the demand and I'm pleased with our rapid progress in becoming a more effective and capable supplier.

Turning to slide 11, you can see that our global presence drives results for each part of our business. Last Friday we extended our very clear lead in capital raising with five IPOs taking place on the floor of the New York Stock Exchange on that single day. Our global leadership with the NYSE listings franchise is part of a concerted effort that we've made over the last three years since acquiring the business.

Our team is focusing on providing the best service, value, and market access. As a result, NYSE has listed the vast majority of significant companies going public this year, including large tech IPOs. And that track record extends back to nearly every major IPO over the last couple of years, including the IPOs for Snap, Yext and Canada Goose, for example, during the first quarter.

We recently rolled out our new NYSE Connect platform based on ICE's data and technology that we adopted from our other businesses. We're able to offer this platform to our listed companies at no charge in contrast to other exchanges where corporate solutions is a revenue line. NYSE is known for its proven market model, value and services, meaning we offer a true partnership to listed companies. For exchanged traded fund issuers, NYSE lists ETFs covering more than 90% of the U.S. assets under management. And to attract more trading, we plan to expand the number of stocks traded on the NYSE floor to include all U.S. securities, further leveraging the benefits of our unique model.

Why does this matter? It enables us to better serve our customers by providing the deepest liquidity pools with designated market makers that ultimately lower volatility. And when companies choose to list on the NYSE, this generates trading and data revenues as well. This is the virtuous cycle that demonstrates the synergistic nature of our model.

Moving on to slide 12 and the transaction and clearing segment, you can see the results that our global markets continue to deliver. Futures volume and open interest grew solidly in the first quarter on top of a strong first quarter last year, despite there being less market volatility this year. Year-to-date our average daily volume is up 9%. Our markets our prudently diversified across products ranging from oil, natural gas, agriculture, equity indices, and interest rates.

The breadth and depth of our markets enable us to attract liquidity and related products. As an example, we're growing the MCSI and FTSE index futures alongside European interest rate and foreign exchange futures. These are globally relevant products that allow us to attract more customers for trading and data consumption. Equally important, the trends in open interest are also directionally favorable in our key asset classes alongside of our volume growth.

I'll move on to slide 13 for more detail on the global nature of our markets. You can see that when looking at volume during European and Asian market hours, we have a strong presence internationally. And we continue to build on that with products like Dubai Crude, Singapore Jet Fuel, Rotterdam Gas Oil, European Emissions, and Japan Naphtha, along with our benchmark European interest rate and equity index futures. On the slide, you can see the results of our comprehensive offering for the global oil markets which generated record revenues during the first quarter on record volume and record open interest.

The range of energy products we offer continues to grow, not dissimilar to Amazon's model of a long-tail business where the breadth of our market contributes to the overall depth of our market. We have an unsurpassed energy commodity offering ranging from futures and OTC markets, the Platt's eWindow, the electric power and natural gas basis markets and the nearly 1,000 new products that we've developed for clearing to create a complete product suite. More broadly ICE's leadership in oil futures continues with over 50% of total open interest across Brent and WTI futures.

And finally we continue to grow and have upside in supporting the market's desire for price discovery in electronically traded commodity options as evidenced by the 100% volume increase over last year's first quarter for screen-traded energy options on ICE.

And despite the relatively low price volatility, we're growing our natural gas business globally given the increasing demand for cleaner fuels coupled to the abundance of supply. Importantly, our continued growth in the broad energy market is a key contributor for both our trading and data segments.

Moving to slide 14, I'll touch on the momentum in our European interest rate business over the last year where volume and open interest continue to grow due to the activity of global central banks. While ICE's reported revenues have been impacted by the currency depreciation of Europe, the volume expansion of this business amid entrants like Nasdaq's defunct NLX and CurveGlobal demonstrates the value of our offering and our platform for future growth. While there's no explicit timetable for European Central Bank interest rate increases, our increasing trading volumes are positive indications of the market's prediction of an improving economy.

On a related note, I was honored to be a panelist at the Prosperity UK Conference last week in London. The agenda was to look ahead to the UK's future in a post-Brexit world. Similar to the U.S. with our change in administration, the UK has an opportunity to also move towards a pro-growth platform and avoid the burdens of duplicative regulation. I believe that the UK has every ability to adopt policies to retain the business that it has earned and that the UK and the EU will find ways to work together constructively. I further believe that the evolving landscape in the EU will also offer ICE new business opportunities.

We've been fairly transparent, however, in our beliefs that Europe's MiFID II is a poorly designed piece of legislation for the current environment and for providing the capital markets with certainty. I remain hopeful that as the billions of pounds and euros of compliance costs are considered relative to their benefit, we'll see new market-oriented solutions prevail. Regulation is needed but asymmetrical regulation can create unintended consequences, and this is one of the issues that policymakers at the IMF and the World Bank discussed last month at their meetings in Washington, D.C.

That being said, ICE is preparing to serve our customers under all eventualities, as we always do, and we have a number of work streams ongoing to maximize the new revenue opportunities that this legislation creates. One such example is our recent agreement with Euronext to license our commercially open access clearing services at ICE Clear Netherlands. This is yet again an illustration of the value of having our global footprint in a fragmenting world. So we continue positioning our exchange, clearing, and data operations at the leading edge to help our customers and to provide solutions to them that are responsive to the ongoing changes in the global landscape.

I'll close on slide 15 and I'll note that our focus has turned towards the balance of the year to build on our track record of growth. We're strategically executing across the broad opportunity set that we've covered on the slide here. I'd like to recognize and thank our customers for their confidence in the quarter and I want to thank my colleagues at ICE for delivering these great results.

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

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] We will take our first question from Richard Repetto of Sandler O'Neill. Please go ahead.

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Good morning, Jeff. Good morning, Scott.

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

A

Morning.

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

A

Good morning.

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Q

The first question is on the very popular topic of market data. And I'm just trying to see, Scott, whether the GAAP guidance of 5% growth is still affirmed in market data and it appears that you expect a ramp if currency stayed flat going out to replace the IDMS lost revenue. Is that correct, on a GAAP basis?

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

A

I'm not 100% sure I understood the second part of your question, Rich, but on one of the slides Jeff addressed, we did reiterate that we believe our data business will grow at least 6% for the year. I think that's further supported by the ASV metric, which is up 6%. IDMS and TMX Atrium, the net of those businesses I mentioned would reduce revenues about $12 million a quarter over second quarter, third quarter, and fourth quarter.

That notwithstanding, I think what you'll see adjusted for that is we accelerated from the fourth quarter to the first quarter, adjusted for that reduction in that acquired and divested business. We'll see an acceleration into the second quarter, or we would have seen an acceleration. And I would expect we'll see an acceleration into the third and fourth quarter as well. So we're happy with the way the data business is trending and we're happy with the fact that what we're seeing is really solid growth on top of growth in the prior year. So, again, I didn't quite follow the second half of your question. If I didn't answer it, maybe try again.

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Okay. I think that answered it, or I'm sure other people will ask about market data as well. I'll limit myself to one follow-up though. I guess I've got to ask this, Jeff, I've gotten a handful of emails about this. But there was an article from Bloomberg that came out talking about M&A. I know you don't discuss anything specifically but I guess the broad question is wouldn't you think that there'd be – in any combination of two major futures exchanges, wouldn't there be antitrust or issues? It's certainly got everybody talking I guess this morning, if you can make any comments.

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

A

Well I can't. And you graciously prefaced that in the question, so I appreciate that, Rich. You know, let me just say that I think that our company is unique in that we're always looking for ways to grow value for shareholders and we not only buy companies but we buy companies that we think we can grow organically. And we just proved that by the first question that you asked Scott. And we also dispose of companies where we think we're not good operators or where somebody else could do better with the firm than we could.

So we're constantly looking at the way we go to market and try to be innovative. We look at deals that other people don't think about. And we're always amused when the market thinks we're going one direction and internally we know that the market is wrong and we're going another direction. So that's just part of the way we think around here, because I'm surrounded by a lot of entrepreneurs, and we're constantly generating new ideas on what to do to best serve customers given the macro trends in our space. So I'll leave it at that, if you don't mind, and let you guys go talking.

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Okay. I'll leave it at that as well, and I'll stay to the one follow-up. Thanks.

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

A

Thank you.

Operator: The next question is from Michael Carrier of Bank of America Merrill Lynch. Please go ahead.

Michael Carrier
Analyst, Bank of America Merrill Lynch

Q

All right. Thanks, guys. Scott, maybe on the transaction side, particularly on that futures business, when we look at the trends, both open interest and ADV, and not just for April but year-to-date, things are looking pretty strong, obviously some tough comps last year. And just wanted to get a sense, obviously, there's some that's environmental, maybe on rate, the rate backdrop in Europe. But it also seems like on the desktop, like your revenue growth is picking up. So just wanted to get some sense on maybe user growth versus the environment?

Because it does seem like there's more going on than just a better environment for some of the products. So any color behind that would be helpful.

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

A

Okay. Let me – there's somewhat two questions imbedded in there. Let me touch on kind of the futures business. We are seeing very strong growth. Through yesterday, overall volumes in the quarter are up 24%. In terms of revenue, as you mentioned, it's not only a tough compare, it's also a tough currency environment. And in interest rates in particular with the volatility, the customer mix has impacted rates. But as I step back and look at it, there's no question that we continue to see strong commercial demand around our platform.

And that's what's really driving the volumes and, more importantly what's driving the open interest. Open interest up 9% year over year. There's not a better leading indicator for the robustness of the business as we look forward. Again, currency and mix and all the other factors aside, which you can't really control, open interest says that the commercial customers are still really interested in the market. And I'll give you a subset example of that. When I step back and look at the best indicator for our oil markets, to me that's open interest. And our open interest for oil went above 50% share about two years ago, and it stayed there.

And again, I think that's an indicator that there's continued interest. Whether oil's moving up [ph] above 50 or down towards 50, (29:14) the commercial customers are in there hedging their risk. So we've definitely seen continued strong growth and customer interest in our markets. And I think that's, as you mentioned, translating over into strength we're seeing in our desktop and connectivity business.

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

A

I'll mention – the second part of your question, I mentioned in my prepared remarks but I'll elaborate a little bit. The reason that we're focused on the data part of our business is that historically exchanges like ours took data to market by basically wholesaling the data to third-party data vendors, and largely that data went into these large multi-asset class desktops that people were acquiring.

Today we're seeing a different trend, which is our customers want more customized applications on their desktop, probably no different than you and I on our smartphone. And we see them taking, for example, MarketAxess screens for their bond business, FactSet screens for their equity business, Aladdin screens for risk management, and ICE screens for commodities.

And so the nature of the desktop is changing to more tailored, bespoke, customized, targeted solutions. And the data that's underlying that, many people want it on a pipe. In other words, they want just to buy the direct feed from us so that they can customize and power the way that individual people in their operations are accessing data, using new algorithms, new risk management tools and alike that people are using to get an edge for trading and risk management, and also to be responsive to compliance.

Just one other comment I'll make to elaborate on what Scott said about our interest rate business. What's been very amazing for us to watch is that our European interest rate business has been more responsive it seems to U.S. Fed actions than the U.S. interest rate complex. So in other words, the market is watching what the U.S. central bank does and is then imposing what the results of that are on Europe and abroad and reacting to that, and we see risk management being done in our market.

So it's been an interesting suite of products to own where it's not necessarily directly correlated to what the ECB and the Bank of England do.

Michael Carrier
Analyst, Bank of America Merrill Lynch

Q

Okay. And then just quick follow-up. Scott, just on the capital management, an active quarter when we look at buybacks [ph] data (32:08) and the dividend. Just any sense on what you think going forward in terms of priorities, whether it's given where the stock is, given the M&A environment out there, just any color?

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

A

I don't think it's really changed from our comments previously. As you probably noticed, we actually ended up spending more in the first quarter than we had originally indicated. We had said $200 million, we spent $230 million, and that did have to do with, as you say, our view on the stock price. You may recall that early in the quarter it was languishing around $57, $58 and we aggressively accelerated. I mentioned that through yesterday we're already at $80 million. We don't really project going forward in terms of what it's likely to be, but if you look at the first quarter and you look at the first third of this quarter, I think that gives you an indication of where we're headed.

And I think the good thing is, I mentioned on 16 months past the close of the deal, with the Cetip deal closed, we're effectively at our leverage target. We've returned $900 million. We've shown a preference to share repurchases and that's historically been the case and I would expect it will be the case going forward. But don't miss the fact that the dividend is up 17% year-over-year in the first quarter and that's the, I think, third or fourth consecutive double digit increase since we instituted it.

So really no change in terms of capital allocation as I said on the last earnings call. We think we can do strategic bolt-on M&A just as we're doing and continue to be really aggressive on repurchases and effectively return 100% of our free cash flows over the course of this year.

Michael Carrier
Analyst, Bank of America Merrill Lynch

Q

Okay. Thanks a lot.

Operator: The next question is from Alex Kramm of UBS. Please go ahead.

Alex Kramm
Analyst, UBS Securities LLC

Q

Hey, good morning, everyone. Just wanted to hone in on the market data again, particularly on the exchange data. When you look back 12 months in the second quarter of last year you got a pretty big bump that surprised lot of people. And I think one of the things that happened back then was that on the ICE futures side, some fee waivers expired. If I understand it correctly, there's a second component of that that happened this April. So could you just talk a little bit how what you expect here in the second quarter, how big that bump should be as well on a quarter over quarter basis. And then maybe just in general around exchange data, obviously, some of your competitors showed some weakness, so maybe you can compare and contrast your business there a little bit.

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

A

Yeah, Alex. So, what you're referring to is that we used to have a group of people that got free data from us and we decided to convert everybody to paying customers. And so our customer base, if you will, for the purchase of data dramatically expanded as many of those people that used to get it through various sources for free turned around and signed subscription agreements with us.

That is still in the marketplace. It's a broader audience, it gives us more people to sell to and so on and so forth. We haven't touched that program since instituting it a year ago but, as Scott has guided you, we do think that our overall data revenues are going to continue to grow along the way that we've been growing in the first quarter.

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

A

Yes, and I think specifically to the last part of your question, our exchange data business was up sequentially from the fourth quarter and we expect it will be it sequentially in the second quarter versus the first quarter. And, as Jeff alluded to, we continue to see more customers looking for different ways to consume more of our data. So we remain very confident in that business. As I mentioned in my prepared remarks, 4% to 5% growth for the year on top of 14% growth last year.

Alex Kramm
Analyst, UBS Securities LLC

Q

Okay. Great. And then just secondly something small here but, Scott, you had that one-time item in the first quarter here, the accrual for legal things, I believe. I don't know if you touched upon that in your prepared remarks but can you just flesh it out? And importantly, you said it was an ongoing item and it was $10 million this quarter, so just wondering is it something that actually happened in the cost base? Not trying to be too cute here but obviously it's $10 million. It gets you from the high end of your guidance range to the low end in the quarter so I feel like it's obviously important.

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

A

Yes. That's an accrual that's an estimate of potential exposure related to certain ongoing legal and regulatory matters. And I can't really say a lot more than that other than pointing out that by the nature of non-GAAP in it, it's our view that that's not a typical charge. And so I don't think it would be appropriate to look at as it's a difference between the high or the low end of our expense range. It's not something you'd put in the run rate moving forward. It's just, you know, as per accounting, when you come to a conclusion that you have an estimate of a potential exposure, you book it, and that's what we did.

Alex Kramm
Analyst, UBS Securities LLC

Q

But it wasn't – you hadn't had anything related to that previously? So this was completely new, I guess the point.

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

A

Yes. Yes, again, which goes to the reason why we non-GAAPed it.

Alex Kramm
Analyst, UBS Securities LLC

Q

All right. Perfect. Thank you.

Operator: The next question is from Kyle Voigt of KBW. Please go ahead.

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

Q

Hi. Good morning. I guess one on Europe and Brexit, and I know you made some comments around this in your prepared remarks, but it really seems like the tension continues to build around euro-denominated clearing and whether there's going to be a location requirement here post-Brexit. Am I interpreting your comments correctly that you think there will be an agreement reached there to keep this in the UK longer term? If you could just elaborate on that. And then maybe, secondly, as we think about the impacts to your business, can you just address some of the risks maybe around your IBOR and then some of the opportunities you talked about maybe in the EU post-Brexit.

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

A

Sure. Yeah, I mean I tend to think that markets are rational and so the UK and the EU will end up someplace that works for both parties. And we sit in the UK but the E.U. has an argument that I think has validity, which is that during times of stress, if there's stress on the euro derivatives market and the European Central Bank has to step in and provide liquidity, then it needs some visibility into the market.

And so I see the debate that's going on right now is about the role of the ECB and the visibility that it has in these markets. And that, starting at that premise, that is a not irrational view for Europe. The question is how does that manifest itself? Is it an actual physical moving of products? Is it a joint oversight? Is it a college of regulators? There are a number of solutions that I suspect will be teased out during the Brexit negotiations.

And I've long said that we have viewed the markets as becoming more fragmented due to the fact that regulators are implementing their version of oversight in different ways with different timetables. And we all went through a global conversion from analog to digital, where we could sit in our living rooms and access the rest of the world, and we're somewhat unimpeded in doing that, and that happened – so the birth of the Internet age.

What's happening now is regulation is catching up and wants to have oversight locally. And so it's starting to fragment what we used to enjoy as a holistic market. And we've set the company up specifically for that. So our Netherlands operation, which is located in the EU, has now been converted over to have all ICE technology. We have a management team that we've put in place there. And if we needed to move certain contracts to the continent, it would be relatively easy for us to do that. In other words, it's database work for us. I'm not minimizing what that would mean for customers, because they will also have to change account structures and domiciles of how they manage those accounts and funds flow. But generally this is not about picking up and find new office buildings and relocating people. It's about moving files and legal structures. And so we're very, very prepared for that.

I think that – my own view is that the UK has largely over hundreds of years been a global free market trade destination for people to do commerce, and that the EU has got a different agenda right now, which is integrating multiple countries, multiple cultures that have a common financial market. And that the divorce, while it's unfortunate, would allow each of those groups to focus on the thing that they want to focus on right now, and I think both will create opportunities for us.

And we're thrilled that we are able to work with Euronext, for example, and move their derivatives clearing into our Netherlands clearinghouse. It is an example of the so-called open access where multiple exchanges share a common clearinghouse. We have a great relationship with them, given that we used to own them. We totally understand the business that they're bringing to us, we totally understand the technology. It's going to be a move that I think will be beneficial for both of us and probably would not have happened had there not been a Brexit.

So I'm a glass half full kind of attitude and surrounded by entrepreneurs. And we see a lot of opportunity for the growth of our company, even though this is a pretty stressful time on a lot of companies in Europe.

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

Okay. Thanks for the thoughts.

Operator: The next question is from Vincent Hung of Autonomous. Please go ahead.

Vincent Hung
Analyst, Autonomous Research US LP
Q

Hi. So data ASV growth was 6% this quarter, looks to have declined versus the 8% in 4Q. Are there some moving parts impact in that? And can you also clarify the definition, if this is just referring to pricing and analytics?

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

Yes. So, Vincent, the changed ASV is fairly simple. The ASV measures where we are entering the period this year versus the period last year. Entering the first quarter, the pricing policy changes that we implemented in 2016 were fully baked in. Entering 2016 back in the first quarter, they weren't, because as you know those were implemented in the second quarter. And so there's a bit of an apples and oranges that drove the 8%; that normalizes its way out. Entering the second quarter, pricing policy changes were in the base last year, they're in the current year, and so year over year the ASV lines up more closely as you would expect with our expectation on revenue growth for the year.

And with regards to your second question, I think what you may be asking is to refresh on what I said with regard to how we're thinking about the organic measure for pricing and analytics. And on that one, and frankly in the second quarter and the third and fourth quarter, we'll likely do a similar thing on desktops and connectivity. What we wanted to do is just give you a view of pricing and analytics, and again in future quarters desktops and connectivity adjusted for the material impact of the Securities Evaluations business, which we didn't own until the fourth quarter last year, and then IDMS business net of TMX Atrium , which really will reduce revenue 2Q through 4Q. So it's our effort to try and give you for each of those line items better visibility into the underlying business growth.

I'll note that it's challenging, because the reality is the Securities Evaluations business in the first quarter was better than we expected and better than it was in the fourth quarter. And I would argue that that's largely because of our team and our ownership. That notwithstanding, I'm not trying to parse out which part of it was organic or not. But generally speaking, as we roll forward we'll try and give you that kind of visibility where any particular acquisition or divestiture impacts one of those line items in a material manner.

Vincent Hung
Analyst, Autonomous Research US LP

Q

Thanks.

Operator: The next question is from Brian Bedell of Deutsche Bank. Please go ahead.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks very much. Good morning. Maybe, Scott, if I could just zero in a little bit on the run rate in the second quarter, given we have some moving parts? So obviously we have the $12 million drop from the divestiture of IDMS net of the acquisition of Atrium. If we look at just sort of the organic growth rates that you're outlining for the year and assume that's a good run rate into the second quarter, I would get sort of a data number around $512 million, $513 million. Just want to make sure I'm doing that correctly? And if that's a good run rate to base off of coming into the back of the year? And then if you can comment on Trayport and how that would – if you had to divest that, how much that would reduce the revenue by on a quarterly basis?

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

A

Yes. So first of all, I think – without validating your particular number, I think the logic you followed to get to it is spot on. So I think you're thinking about it exactly right. And with regards to Trayport, when we bought that business we noted that it was about $80 million of revenue at about a 50% margin. And I can't really say anything more to you about it right now. Obviously, we remain in the process. And if we get to a point where that trajectory changes, we'll come back and update guidance at that point.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. So that second quarter run rate then is clean now with deals at this level? In other words from a run rate perspective, that's what we should be forecasting going from that basis?

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

A

Yes. As we sit here today, yes.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Great. Then just going back to Europe, Jeff, your comments on Brexit. If you had to bifurcate that volume on rates in the UK versus your Netherlands clearinghouse, would that be something more along the lines of separating just the Euribor versus the sterling, so keeping the sterling in the UK, Euribor over to Europe? Or would that be also really cutting up that Euribor and bifurcating that between European customers and UK customers, if you were forced to do that? Would you see that as something that would be impactful or not really that big a deal?

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

A

That's a good question. I have had the great privilege of talking to senior managers at a lot of the banks that are coming up with contingency plans for various outcomes of the BREXIT negotiations. One of the interesting themes is that once things start to move, if they were to move, there aren't obvious lines of demarcation where things would stop. In other words, put yourself in the position of a bank manager. You have sales people probably already and you need then maybe risk management people and compliance people. And the next thing you know, you're moving more and more and more in order to support the organization. So as we talk to our customer base about how they're thinking of moving, we haven't come to an obvious answer, an obvious break point.

And people are – all of us in financial services are thinking of the two ends of the barbell. What are the extremes if we don't go? And what are the extremes if we do go? And then what are the shades of gray in between? And it is not obvious. For us, however, you should understand that part of the logic of building this company has been to get everybody on a common technology so that our connections, for example, to market makers and banks, the way people are located to us, the way our data feeds operate, are really agnostic to where the geographic domicile for regulation is.

And so a move is really, like I mentioned, more of a back office operation. Certainly has lots of implications and impact on our customers. But from ICE's standpoint, we've built the company to do that. And you've seen us move contracts and jurisdictions around already, move from one clearinghouse to another and move across various platforms. And that's the kind of business that we think a lot about and develop internal processes for. So we sit in a relatively luxurious position, waiting for the outcome of what our customers actually want to do.

Brian Bedell Q
Analyst, Deutsche Bank Securities, Inc.

So if those liquidity pools were cut up a little bit, you don't think that would have a material impact on the pricing ability on both the clearing and the trading side?

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

Might have just the opposite, in fact. We've seen – think about the new entrants that have come into some of our markets where they create a new pool of trading. Let's take energy for example, there's some new entrants, new pools of trading. What does it result for us? Record volume, record open interest, record revenue. Look at European interest rates, new competitor there, record volume for us.

When you split these liquidity pools, and entrants may do that and regulators may cause that, what happens is that overall volumes tend to go up because the market starts to arbitrage and tries to put the market back together, the value of data goes up. And the whole thing for us turns out to be very good business. We fight that because we don't think it's in the best interest of the market. We have ways of growing otherwise, but we have positioned ourselves for more fragmentation which ultimately I think leads to higher revenues and earnings for ICE.

Brian Bedell Q
Analyst, Deutsche Bank Securities, Inc.

Okay. That's great color. Thank you.

Operator: The next question is from Alex Blostein of Goldman Sachs, please go ahead.

Alexander Blostein
Analyst, Goldman Sachs & Co.
Q

Thanks. Good morning, everybody. Just a clarification question, I guess at this point. So, Scott, I think you mentioned that your expense guidance for the year remains as you guys highlighted on the last call, I think it was $1.94 billion, $1.98 billion. Is that inclusive of the Atrium cost that, I guess, coming in this quarter. And then maybe you could just give us an update on run rate savings from IDC integration you guys expect to be at by the end of the year and how much is left for 2018?

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

Yes, so you're right the full-year guidance didn't change. We said it [ph] was $1.94 billion to $1.96 billion, (52:08) effectively flat versus the prior year. But last quarter I did mention that those expenses, it would be flat plus maybe $10 million to $12 million net of all the various acquisitions and divestitures that we have talked about to date. So again, still inside that range with maybe the acquisitions pushing it up a little above the middle overall. That's the reason why we didn't reiterate it, because we're still in the same guidance range.

In terms of synergies, you may recall that we entered the year by increasing our synergies to $130 million to go. We said we'd get $60 million out this year, we're on track to do that. We said we'd get the remaining $70 million over 2018 and 2019 and I remain confident that we've got road maps in place to go and get those synergies, so. We feel confident about where we are from an expense management standpoint and a synergy realization standpoint.

Alexander Blostein
Analyst, Goldman Sachs & Co.
Q

Got it, thanks.

Operator: The next question is from Chris Harris of Wells Fargo. Please go ahead.

Christopher Harris
Analyst, Wells Fargo Securities
Q

Thanks, so you guys are doing quite well on listings versus your primary competitor. Wonder if you guys could talk a little bit about that, what's driving the success. And I know you guys have made a lot of investments in the New York Stock Exchange since you've acquired it. Is that having a positive impact?

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

Yes, I think the second part of your question is the answer to the first, which is we've become more focused on it and we've really forced our team there to think about what is it that we do well and sell that, if you will, and allow our competitors to sell what they do well and let the market line up against those facts. In other words, we're not trying to being them and they're not trying to be us and the market is finding its natural home.

What the NYSE does well with that floor-based system is large, complicated multi-national IPOs and it's just what the company is good at and it just so happens that a lot of the companies that are coming to market right now are those kinds of capital raise, and so we're doing well. There's a whole part of the market that we don't do well at that our competitors do better at and so we don't try to force our people to go after the ones that aren't obvious for us and that play to our strengths. It's just like any business, just getting people to focus on what you do well and sell it with passion has really helped the NYSE. And I think at the end of the day, it's just having a little more focus. Tom Farley, his new management team there are doing an excellent job of delivering that culture to the NYSE.

Christopher Harris
Analyst, Wells Fargo Securities

Q

Very good. And real quick, I know they're reasonably small but can you guys comment a little bit on the businesses you are acquiring, NSX and Atrium, maybe a little bit about the rationale and what your plans are for those.

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

A

Sure. Start with Atrium. One of the things that we inherited and we've talked about before is the network that was around the NYSE called SFTI. It was largely built because Reg NMS required that the exchange have connectivity to the other exchanges and market trading centers. The NYSE very interestingly built that out to lots of exchanges and lots of trading centers. And so it is a SFTI network. The acronym is SFTI but it's appropriately named in that it is not a high speed network that is full of microwaves, it is a network that is incredibly reliable and it's used a lot by people for their secondary business continuity planning. So having that, we've just found that, boy, if we can buy other content like Interactive Data company that we can make available on that network, it's perfect.

We found that Interactive Data company also had needed connectivity to exchanges. So we've offered various feeds across that network, including the data and feeds and access to our competitors. We bought Atrium which was connectivity in Canada to TMX. It's for me, as an engineer, it was almost an overlap of network that we had. So it allows us to move their customer base onto our network and deprecate essentially all of their underlying network connectivity and use the pipes that we already have in place. So a small deal. Should be very accretive for us in the long run. And it gives us a whole new customer base to which to sell other services.

So those are the kind of things that we're thinking about on these bolt-on acquisitions. I use the analogy of television network. We have a great network. But if we can find a hit program or maybe a small program that if we put it on our network, because of the distribution, we can make it a hit. Those are the kind of things that appeal to us. They're small but, as I mentioned, just having more breadth, more customer touch, more diversity in the way we solve financial service solutions is driving growth for us across related assets that we have.

Operator: There are no additional questions at this time. This concludes our question-and-answer session. I would like to turn the conference back over to Jeff Sprecher for closing remarks.

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

Thank you, Kate. And thank everybody for joining us today. We'll look forward to continuing to update you on the progress that we're making as we go through the year. Have a good day.

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