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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and welcome to the Intercontinental Exchange Fourth Quarter 2016 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

I would now like to turn the conference over to Kelly Loeffler, Senior Vice President. Please go ahead.

Kelly Loeffler

Senior Vice President, Corporate Communications, Marketing & Investor Relations, Intercontinental Exchange, Inc.

Good morning. ICE's fourth quarter and full year 2016 earnings release and presentation can be found in the Investors section of theice.com. These items will be archived and our call will be available for replay.

Today's call may contain forward-looking statements. These statements, which we undertake no obligation to update, represent our current judgment and are subject to risks, assumptions and uncertainties. For a description of the risks that could cause our results to differ materially from those described in forward-looking statements, please refer to our 2016 Form 10-K, which we filed this morning.

In our earnings supplement, we refer to certain non-GAAP measures, including adjusted income, 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 continuing operations earnings per share. Unless otherwise noted, the year-over-year figures we will discuss reflect comparisons against adjusted pro forma 2015 results.

With us on the call are Jeff Sprecher, Chairman and Chief Executive; Scott Hill, Chief Financial Officer; and Chuck Vice, President and Chief Operating Officer.

I'll now turn over the call to Jeff.

Jeffrey Craig Sprecher

Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

Thank you, Kelly. Good morning everybody on the call. We're pleased to have the opportunity to report the best year in ICE's history. As you can see on slide 4, 2016 was our 11th consecutive year of record revenue and record adjusted earnings. It was also our third consecutive year of double-digit adjusted earnings growth driven by our core business and the strong contributions from investments in our strategic growth initiatives over the last three years.

Over that time, we've restructured and integrated NYSE Euronext, while delivering $530 million in synergies to-date. We're ahead of schedule on integrating Interactive Data Corporation with $70 million in synergies delivered in the first year. And we're now increasing our synergy forecasts for the next couple of years.

As we integrated the NYSE and IDC, we delivered consistent top line growth, margin expansion and improving returns on invested capital, while also returning more than $2 billion in capital through dividends and share repurchases. We now possess the most comprehensive range of financial market solutions across trading, clearing, and data.

Moving into 2017, we remain laser focused on creating value for our shareholders. We continue to skate where the puck is going just as we did when electronic trading and clearing emerged as new areas of growth a decade ago.

Over the past five years, we've repositioned our company deeper into areas where growth is more sustainable and revenues are increasingly consistent. Since 2011, we've grown recurring revenues from 9% of our consolidated revenues to 53% in 2016. In the process, we've built modern data solutions by organizing our proprietary data, technology and acquisitions.

Our approach leverages the global distribution of our exchanges, clearing houses and our proprietary data, which is an indispensable, growing component of our market participants' workflow.

Our strategy continues to prove itself out with double-digit adjusted earnings growth, driven by each of our business segments. ICE Data Services demonstrated its ability to grow above the sector growth rate, while delivering leading operating margins. Our Financial Futures volumes grew double-digit in 2016. And ICE Brent Crude achieved the 20th consecutive year of record volumes. These are just a few of the great examples of drivers of our long-term growth, which provide the foundation of our confidence entering into 2017.

I'll now turn the call over to Scott to review our 2016 performance and then I'll be back to discuss our strategy heading into this new year.

Scott A. Hill

Chief Financial Officer, Intercontinental Exchange, Inc.

Thank you, Jeff, and good morning to everyone. As you can see on slide 5, we delivered a strong finish to a very successful 2016 despite a challenging environment. Fourth quarter revenues of $1.1 billion were up 5% year-over-year or up 7% on a constant currency basis. We will refer to revenue growth on a constant currency basis due to the significant decline in both the pound and the euro reflected in fourth quarter and current spot exchange rates.

Adjusted operating expenses in the quarter were $493 million, down 3% year to year and below the midpoint of our guidance by roughly $10 million due to currency impacts and additional synergies. Adjusted operating margins increased 4 points to 57% and adjusted earnings per share grew 11% to $0.71 on a pro forma basis.

Moving next to slide 6, revenue growth in the fourth quarter was driven primarily by our data and listings segment where revenues were up 11% year-over-year on a constant currency basis. Data and listings revenues grew 6% on a constant currency basis when you exclude the acquisition of the Securities Evaluation and CMA businesses. Notably, recurring revenues were 54% of consolidated revenue in the fourth quarter. And you'll also see that margins in this segment expanded to 52% in the fourth quarter.

Within the data and listings segment, pricing and analytics revenue was up 14% year-over-year or 4% on a constant currency basis and excluding the businesses acquired from S&P. We continue to benefit from solid customer retention and are starting to see improvements from the reorganization of our data sales force and continued product development.

Exchange data revenue grew 12% over the prior fourth quarter as we continue to see growing customer demand for this important risk management tool. Finally, revenue in our desktop and connectivity business increased 7% year-to-year on a constant currency basis, as more customers chose to buy larger ports to consume increasing amounts of the data that we provide.

Turning now to slide seven, our trading and clearing segment revenues were up 3% year-to-year on a constant currency basis, driven by 10% volume growth. Energy revenues grew 9% on a 12% increase in ADV. Our financial revenues declined year-over-year due largely to currency impact and despite 9% growth in interest rate ADV. Operating margin in the trading and clearing business expanded by four points to 63%.

Open interest in Brent, WTI, European natural gas and our agriculture and equity index products all reached record open interest levels in 2016. We expect continued geopolitical and market volatility to cause our commercial customers to carefully manage the risks associated with their open positions as we move through 2017. However, volume this January was down compared to the prior year trading volumes that were driven by the extreme volatility in January of 2016.

Next, on slide eight, I'll recap our full year results. Consolidated net revenues were $4.5 billion, up 4% over the prior year or up 6% on a constant currency basis. Trading and clearing revenues grew 2% or 4% on a constant currency basis. Data and listings revenues grew 7% with the addition of revenues from the Securities Evaluation acquisition effectively offset by currency impacts.

In addition to growing the top line, we delivered synergies of $120 million, $50 million more than we anticipated at the beginning of 2016, which contributed to adjusted operating margins expanding by four points. The combination of revenue growth and expense discipline drove adjusted earnings growth of 11% versus 2015. Importantly, these strong profit results generated record operating cash flows of $2.1 billion, which allowed us to increase our dividend payments by 24% comparing to 2015, even as we reduced our leverage from 2.8 times at the end of 2015 to 2.2 times at the end of 2016.

I'd like to take a moment to expand on our approach to capital allocation on slide nine. Our capital allocation philosophy is straightforward. After reinvesting in our business and funding select, strategic growth investments, we balance our investment grade rating with the return of 100% of our excess cash to shareholders in the form of dividends and share repurchases.

One year after acquiring the NYSE, we returned nearly $1 billion per year in both 2014 and 2015. Similarly, one year after acquiring IDC, we expect to return over $1 billion in 2017. Underpinning this growth in capital returns, this morning, we announced an 18% increase in our quarterly dividend. We have now raised our dividend by double digits every year since we instituted it, which is consistent with our commitment to grow the dividend as we grow.

We also plan to increase our share repurchase activity from $50 million in the fourth quarter to $200 million in the first quarter. We expect to continue to use repurchases as a primary means of returning an increased amount of capital to our shareholders during 2017. Our confidence in the strength of our business model and the sustainability of our cash flow enables us to invest in our business, maintain our solid investment grade rating, and significantly increase our capital returns only one year post the acquisition of IDC.

Please turn to slide 10, which highlights our track record of delivering sector leading and consistently improving returns on invested capital. We have a disciplined process around M&A analysis and integration. We look to strengthen the companies we acquire by integrating them closely into ICE's operations to unlock greater value over the long term.

Our process measures each business case against our goal of delivering double-digit returns on invested capital; meaning that returns generated are expected to be well above our cost of capital. While each business case is constructed with a view to creating long-term value, the foundation of success is established in our growth, integration and synergy plans which create positive returns above our cost of capital in the near-term.

I should also point out that we consistently evaluate our portfolio. If a business no longer fits our strategy or is not helping us meet our ROIC target, we will divest that business. We did it with Euronext and with NYSE Technologies and expect to divest IDMS during the first quarter and NYSE Governance Services later this year. While good businesses in their own right, they don't meaningfully leverage ICE's core competency or have our strong margin expansion profile.

The results of this disciplined process are reflected on this slide. ROIC has consistently improved in the three years since we acquired NYSE. We expect to deliver a similar trend of improvement as we execute the integration of our recently acquired data businesses.

Finally, it's worth noting that our approach has enabled us to deliver nearly 140% total shareholder return to any ICE shareholder who has held our shares since December of 2012, almost double the return of the S&P 500 over that same period.

I'll conclude my remarks on slide 11 by highlighting a few key elements of our 2017 guidance. Please refer to our press release and presentation for a complete summary of our guidance. Entering 2017, data revenues under contract are 8% higher than they were entering 2016, which gives us confidence that our data business can grow once again, at least 6% on a constant currency basis. While the various acquisitions and divestments we have completed or expect to complete during the first quarter will end – impact individual data revenue categories, the net impact to our overall data revenues and expenses is expected to be immaterial.

I also want to note that while we don't provide guidance for our trading and clearing segment, we are encouraged by open interest levels, strong commercial participation, new products and anticipated market volatility in 2017.

Finally, I want to summarize our expectation for expenses entering 2017. We exited 2016 with around $100 million in synergies to go. We now expect to realize an additional $25 million to $30 million across our acquired data businesses. We expect to deliver roughly $60 million in synergies during 2017.

Adjusted expenses are also expected to decline by around $30 million at current spot currency rates. The net impact to 2017 of the fourth quarter acquisition of the Securities Evaluation and CMA businesses along with the small data acquisition and the divestment of IDMS, which we expect to occur in the first quarter, will increase expenses by $8 million to $10 million. These additional expenses will be more than offset by incremental revenues of $12 million to $14 million.

We also expect growth in variable expenses related to increased data revenues, additional investments in the resiliency and security of our broad technology footprint and increased compensation expenses as we bring IDC onto our ICE structure and as we reward our team for their consistently strong execution each consistent with our pay-for-performance culture. The net of all these ins and outs is that we expect our expenses to be roughly flat in 2017 versus 2016.

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

Jeffrey Craig Sprecher

Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

Thank you, Scott. As we look ahead to 2017, you can see we've continued to build a consistent growth and leading return oriented business. We're bringing the global distribution of 12 exchanges and 6 clearing houses together with data and information, which is the lifeblood of markets and risk management.

On slide 12, you can see that we've grown every year by executing on our growth strategies, staying nimble and maintaining a focus on the needs of our customers. Our customers provide the best and deepest insights into evolving market needs. And this focus has enabled us to steer into high value areas of global markets. We believe this is why ICE stands apart over the long-term. It's the basis for our consistent growth regardless of economic or market conditions, as you can see here.

Our work is well underway to drive growth and returns in 2017. Whether it's offering new products, realizing our synergies, integrating our acquired businesses or repaying debt and return in capital, we will continue to deliver on our objectives.

As we achieve further synergies and expand our margins, we also expect to grow our revenues with a range of initiatives across markets, listings, data and clearing. With the majority of our revenues becoming more recurring, we believe this will strengthen our future performance and provide us with more visibility to manage the growth of our top line, earnings and cash flow.

It also provides for more consistency in capital return. Notably, this consistency is driven by several of our more recent acquisitions. We have $950 million remaining in our share repurchase authorization and we expect to be active in acquiring our shares this year. So we're delivering on our philosophy of growing our cash flow to reinvest in our business, pay a growing dividend and repurchase shares based on intrinsic value.

We'll continue to balance this with a prudent M&A that has generated these strong returns. I expect that any such M&A focus will be towards smaller complementary transactions rather than the larger deals of past years, given our confidence in the growth platform that we have today.

If you turn to slide 13, you can see there are many drivers of our confidence regardless of the financial or regulatory environment in which we operate. First, you might ask how ICE's data business can be growing at a rate faster than the sector average. The simple answer is that we are building a high-value data business that is able to serve the requirements of traders, asset managers, corporates, banks and regulators. This focus is particularly important as the demand for data has continued to evolve rapidly, following the financial crisis and the growing digitization of commerce.

What we've assembled at ICE is a global data business based on comprehensive proprietary data that supports analytics, desktops, indices, data connectivity and benchmarks. For example, ICE generates packages and can sell data directly from our 12 exchanges, without the overhead of re-distributor costs. Our exchanges provide valuable data inputs into indices, like our recent announcement with S&P Global Platts, who will utilize natural gas data from ICE markets, for their benchmark indices in North America. We also have services to provide the feeds, the connectivity and the proximity hosting for this data. So that's an example of our ability to provide unique end-to-end solutions.

In the vast and growing fixed income markets, we're a leader in the evaluated pricing of bonds and a leading innovator in real-time pricing tools, as you've seen in our recent announcements with our continuous evaluated pricing being integrated into BlackRock's Aladdin. And ICE Benchmark Administration was named to a key role within the ISDA Credit Determinations Committee, as it continues to add to its positioning as a neutral regulated benchmark administrator.

Our customers' compliance requirements continue to grow. We offer a range of solutions whether it's our liquidity indicators and reference data bundle or our best execution solutions. We're solving for our customer needs across Basel III, MiFID II, EMIR, Dodd-Frank, Solvency II, FRTB and other regulatory mandates. These are a few examples of our data capabilities and how ICE continues to be woven into the fabric of global markets. We continue to build on our proprietary data solutions as there are many dynamics supporting the need for more data. As you can see on the slide, we are very well-positioned to serve.

Let me shift to our listings business. Having taken ICE public on the New York Stock Exchange in 2005, I'm really proud of what we've been able to achieve at the NYSE in the three years that we've owned it. We've delivered on our cost synergies while dramatically growing the business and ensuring that it is the global listings leader for corporate and ETF issuers.

It was a declining business and we've reversed it, strengthened the floor, conducted 26 out of the last 26 large U.S. IPOs, turned around the financial performance, changed the culture and expanded its opportunity set. NYSE continues to be a source of growth for listings and data revenue and this can be attributed to our disciplined integration efforts that Scott described which unlock value across our acquired companies.

In that regard, on the right side of the slide, you can see that we're focused on several areas to build on the solid performance of our transaction business, which creates the virtuous cycle of growth when coupled with our data operations.

We offer a full range of risk management and trading solutions across virtually all asset classes. And our clearing houses continue to provide growth opportunities from clearing new products to serving the demand for risk management services.

We've built out the broadest energy markets available today, both geographically and from a product perspective. ICE's exchanges in the U.S., the UK, Europe and Asia all serve the global energy markets on a common trading and clearing platform around the clock as trading shifts from east to west during the day.

In European interest rates, we've had great volumes last year growing 12%. What 2017 holds for volumes is difficult to predict, but we believe that Central Bank actions and geopolitics will again dictate that for the most part. This business accounted for roughly 4% of our total revenues and we remain the leading European short-term interest rate franchise, even in this low interest environment. We believe that there remains strong volume upside as Europe recovers.

We continue to see opportunities to strengthen the NYSE's trading position by evolving our market structure and expanding trading in all U.S. equities through our hybrid floor based model later in 2017.

I'll close my remarks on slide 14, noting that we're committed to building on the track record of growth that you can see here. Not only is it unsurpassed in our sector regardless of financial or economic environments, but it serves as a guidepost to our team to continue to deliver results to our customers and to our shareholders.

Our strategy to serve our customers where they are located and our ability to evolve our business quickly to serve the highest value parts of global markets requires us to remain nimble, responsive and results oriented. Because, we're not levered to a single cyclical trend or geography, we've lead our space in growth on virtually every metric over the last decade.

I want to thank our customers for their partnership and I want to thank my fellow employees for their dedicated efforts in achieving these results.

I'm now turning the call back over to Andrew, our moderator, and he'll conduct a question-and-answer session until 9:30 AM Eastern Time. Andrew?

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Michael Carrier of Bank of America Merrill Lynch. Please go ahead.

Michael Roger Carrier
Analyst, Bank of America Merrill Lynch

Q

All right. Thanks, guys. Hey, Scott, just a question on some of the guidance, just – and particularly, just on the capital and the cash used. Just wanted to get a sense, when you look at, say, the $1 billion that you're looking at to return to shareholders and then if we look at your cash flow, there's obviously the other $1 billion-plus, what's the pace of maybe debt pay-down this year versus, you mentioned, smaller deals, if they come up, in order to see, if you have that like flexibility.

And then, just one other one on the cash side is just when we look at the share count, it looks somewhat like flattish despite the buybacks. So, just any indication on grants that would be kicking in to somewhat offset the buybacks.

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

A

Yeah. So, Mike, thanks for the question. There's a lot tied up in that and if I miss a part, let me know. So, let me start on the last question. The share guidance reflects only those repurchases that we would expect in the first quarter, the $200 million that we talked about on the call. We don't project our forward repurchases and therefore we don't project it in the share count. So that maybe why you're seeing the share count be relatively flat offset with the grants, as you talked about it.

More importantly, in the script, I want to be really clear about this. What I said was return over $1 billion this year, not $1 billion. And so, you're going at the right starting point. So, even if you just assume similar cash flows to what we had in 2016 and the timing of certain cash flows can vary back and forth; that was over $2 billion. If you net out of that CapEx, you're looking at free cash flow of $1.8 billion. We talked about $475 million of dividends with the increase that we put in. We're probably about $400 million give or take a little bit of debt reduction to get to our leverage target. That leaves us substantial amount of money for share repurchases.

And Jeff was very clear, we've got a $950 million authorization. We've come out strongly in the first quarter with $200 million and I said explicitly that it's our intent to return 100% of our free cash flow that we don't need for investments in the business or dividends to our shareholders and that'll likely come through repurchases. So, I think the expectation for this year should be a very strong capital return and frankly the most capital we've returned in the history of the company.

Michael Roger Carrier
Analyst, Bank of America Merrill Lynch

Q

Okay. No, that makes sense. And then just real quick on the taxes. Just given the change in equity comp accounting, just any impact there? I am sure it's in your guidance for the full year, but just wanted to get any color.

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

A

Yeah. It was actually in our numbers for 2016. If you looked at our Qs and Ks, we had disclosed that as we moved through the year. There're a couple things that I think are important to note there. Number one, the impact to your tax rate depends on the size of your pre-tax profit, and ours is significantly larger and so the impact from that change is a bit smaller, number one. Number two, be really careful because that is a presentation change. It has nothing to do with cash. And so, again, net-net, it's reflected in our tax rate in 2016, it's reflected in our guidance in 2017. It's a relatively smaller impact for us because of the size of the pre-tax profit we generate.

Michael Roger Carrier
Analyst, Bank of America Merrill Lynch

Q

All right. Makes sense. Thanks a lot.

Operator: The next question comes from Rich Repetto of Sandler O'Neill. Please go ahead.

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

Q

Yeah. Good morning, Jeff. Good morning, Scott.

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

A

Good morning.

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

A

Morning.

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

Q

I guess, first, my question, I think I know the answer, but on the market data revenue guidance, so you're netting out, I guess, the impact of the CMA and S&P, I mean SPSA (sic) [SPSE] (27:37), against the website business that you sold. And could you give us any sort of the revenues of that business that was sold? Because – okay, go ahead.

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

A

Yup. It's a good question, Rich. So you're exactly right. So, the guidance is net of the acquisition of the S&P businesses in the fourth quarter, the divestment of IDMS, which we expect to close in the first quarter and a smaller data acquisition that we also expect to include in the first quarter. You net all of that out and it's roughly a wash. I said $12 million to $14 million of incremental revenue, which on a $2 billion database (sic) [revenue base] (28:11) is nothing. And so, the guidance of at least 6% growth nets all that in.

Importantly, when the IDMS business closes and that new smaller data acquisition closes in the first quarter, you will see a reduction in revenues in the second, third and fourth quarter of about $12 million each per quarter. And associated with that is a reduction in expenses of about $10 million per quarter. So you get a sense of the margin profile of the business being divested and our comments on the script about evaluating our portfolio. So that is all netted in the expectation and again, at least 6% is on a constant currency basis. Currency right now looks like it's about 1.5 to 2-point hurt in 2017 versus 2016, if current spot rates hold.

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

Q

Got it. Okay. That's helpful. And Jeff, I guess, broader question is we definitely seen a different outlook in regards to regulation, at least here in the U.S. And I think, I'm not sure how you position regulation as being at least somewhat of a burden in Europe to cause fragment – that will cause fragmentation, but also as a benefit as well. And I guess, if you could just sort of give your views on the potential for change in regulation in the U.S., whether it be Dodd-Frank or Volcker. And then an update on what's going on in Europe.

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

A

Sure. While, I think, you used the word in your question which is we expect there's going to be change and whenever there's change it means that customers are having to change their behavior and modify their risk management practices. And we always do really well in these environments of change because we're pretty nimble and responsive and we have a pretty big toolkit. So, we do all of that as positive from a business environment standpoint and it validates the decisions we made long ago to have a jurisdiction placement in different jurisdictions of key people and key assets so that we can be pretty locally responsive and on top of those things.

That being said, you do see this trend in the U.S. towards lighter touch regulation and you're going to have some kind of change going on in Europe post Brexit with the UK leaving the EU and both entities revaluating, in my opinion, the footprints of regulation that they have in order to remain globally competitive and have something that's relevant to their markets.

So, a lot going on. It's why Scott is relatively confident that we begin the year with our data revenues up 8% contracted compared to last year. And a lot of that business has come from EMEA as people are positioning themselves really due to regulatory changes that are going on over there.

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

Q

Okay. Very helpful. I'll get back in the queue. Thanks.

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

A

Thank you.

Operator: The next question comes from Alex Blostein of Goldman Sachs. Please go ahead.

Alexander Blostein
Analyst, Goldman Sachs & Co.

Q

Great. Thanks. Thanks, guys. Good morning. So, just sticking with the data business for a second. Following up, Jeff, on your last point about contracts being up 8% versus the prior year; can you give us a sense on, I guess, like how predictive is this for revenue growth in this business? I know you only had it for about a year, but just given the trends that you saw in 2016, wondering how good of an indicator that is for revenue growth. And then maybe you could expand on particular products and categories that you're seeing a pickup of growth within that 8%.

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

A

Yeah, it's good question. And we have back tested, if you will, the metric a bit and it's a good indicator. It's not a perfect indicator, nothing is, because as you move through the year, you look at new sales and what the trends are there, the mix of products that are being sold, et cetera, but it is a good indicator that's why I mentioned it. I think our confidence in our data business growing is supported by the metric, that metric being up 8% entering the year. And by the way, that up 8% is on an apples to apples constant currency basis, so it directly relates to the revenue growth.

I think it's relatively more indicative of, if you will, the former IDC business. And I think it's important to note that that business, which is largely reflected in our pricing and analytics, we expect to grow two times faster this year than it did last year.

And so, while the overall growth is at least 6%, the leader of that growth this year is going to be that pricing and analytics business. It's going to be for the reasons that Jeff talked about, with particular strength in Europe, with particular demand for more information around bond pricing, et cetera. And so, overall, my expectation, as opposed to this year, where exchange data was the faster growing segment, exchange data will be a solid contributor once again in 2017. But it's really that pricing and analytics business that will grow faster than the overall data revenues.

And then it's going to be a bit of a mixed bag in connectivity and desktops as we move through the year. Connectivity, as I said, we're seeing more and more customers want more and more of our data and move up to larger ports, which is obviously going to generate revenue growth in connectivity. But, in desktops, that's where the IDMS business is, that business will be coming out in the second through the fourth quarter. And so, as you look at the year-over-year dynamics of that, it won't look particularly appealing, but again, that will be largely reflective of the divestment. So, hopefully that gives you a little bit of a flavor for the pieces underneath the total.

Alexander Blostein
Analyst, Goldman Sachs & Co.

Q

Got it. That's very helpful. And then just a quick clarification around expenses. Scott, I think I heard you say that FX on a spot basis is a bit of a headwind still to the guidance on the data side. But presumably that would also help on the expense side of the equation. So, I guess, within the guidance that you provided on adjusted expenses, what are you assuming for FX? And if you were to kind of think about the spot rates, what could that look like?

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

Yeah, we actually put that explicitly on chart 11, so it's a $30 million benefit in our expenses just parceled through the year.

Alexander Blostein
Analyst, Goldman Sachs & Co.
Q

Okay. Got it. Thanks so much.

Operator: The next question comes from Warren Gardiner of Evercore. Please go ahead.

Warren Gardiner
Analyst, Evercore Group LLC
Q

Yeah. Great. Thanks. I was just wondering if you guys could maybe talk about the reference data business a bit. I mean, I think you guys announced that APEX was going to be providing some services to GoldenSource during the quarter. So can you just maybe speak to that opportunity and what you see there going forward? I think it's kind of an area that IDC invested in and was also kind of a – maybe a smaller player versus some of the incumbents.

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

Sure. Well, first of all, let me just say that it's – we're in the reference data business, particularly strong, in certain segments of the reference data business around the fixed income platform. We're looking across our whole organization. The acquisition of Interactive Data Corporation sort of a light went on inside the company to say, boy, we have all kinds of reference data around here that we never really thought about digitizing.

So we are investing this year and part of Scott's guidance is continued investment in the digitization of reference data so that we can make it available through the connectivity and the distribution channels that we have. So it's a very good and strong area for us and one that we feel like has growth opportunities.

Customers increasingly want lots of choice in how they gather data. They oftentimes want multiple providers. And they want as much information as they can put on the digital highway so that it's easy for them to consume it. So, all of those trends are things that has caused us to up our investment in that area.

Warren Gardiner
Analyst, Evercore Group LLC
Q

Great. Thanks. That was it. That's it for me.

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

Thank you.

Operator: The next question comes from Ken Worthington of JPMorgan. Please go ahead.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning. Can you talk about the cash equity and equity options business? There seems to be some pricing pressure in the industry, it's kind of affecting share of a lot of the participants. I guess, maybe, how are you managing that balance between continued profitability and market share? Thanks.

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

A

Sure. Let me start with the second part first, the equity options business. ICE is in almost every asset class in some manner around the world. And I would say to you that the U.S. equity options business is the most difficult business of any business that we're in. We're in it because it's part of the NYSE and all the other good things that we derive out of the NYSE. But that as a standalone business is incredibly challenged.

If you look last year, there were new market participants come in as exchanges to list equity options. And the rate per contract fell as a result of that and volumes across the industry fell. So, in that environment, you have one or two choices, you can play a market share game and cut fees in order to talk about market share or you can try to maximize your business towards earnings potential and that's what we're doing, is the latter. We don't really care about share, we really care about finding our core group of customers that like what we do and the way we deliver it and it's the technology we have and are willing to pay us appropriately for it. And I let all that other noise just drift away and – to be very honest with you, Ken.

The market has, at its core, a small handful of market makers that are very, very important to this country and to those markets, but those people are very sophisticated, they can move their business around that will, they use algorithms to maximize their profitability. And so, you've got to attack that market in a way that defines your business and as you can see, consistent through the presentation today, we're really looking for earnings per share growth long-term for our shareholders. So that is that business.

The equities business is interesting to us and we're doing quite well in that business. We – when we look at the business today, there are a number of business models that exist. We believe the best model is the NYSE model of a hybrid floor and screen coupled with dedicated market makers. And the market also believes that is the best model and that particular model has the highest market share in the U.S. equity space. But there are customers that want choice and so, we have decided and announced earlier that we're going to you – we're going to list the other models if you will under the different medallions that we have and that is an all electronic model, which is very good for ETFs and ETF listings, a speed bump model.

And we've got one other medallion we haven't announced yet what we're going to do there, but suffice to say that's our goal for customers to have a one-stop shop where they can get all the different models in one place at a very low cost with very good technology. And so, we'll look forward to delivering that. We're highly optimistic about our ability to grow earnings on the NYSE as a result of the investments that we're making there.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Okay. Great. Thank you. And then, Scott, maybe really a quickie. Cost synergies coming in faster than you expected. You signed an additional $25 million to $30 million. You're guiding to $60 million now for 2017. I haven't been able to navigate the math yet. What does this imply for 2018? How much is left there?

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

So, Ken with the additional $25 million to $30 million that kind of leaves us toway I would think about it is we're going to get little less than half this year, and then, the rest of it in 2018 and 2019.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC
Q

Okay. Great. Thank you.

Operator: The next question comes from Chris Allen of Buckingham. Please go ahead.

Chris Allen
Analyst, The Buckingham Research Group, Inc.
Q

Good morning, everyone. Just want to talk about the trading businesses a little bit. I think, Jeff, just kind of covered equity options and cash equities and you talked in your remarks about potential growth opportunities elsewhere. I just wonder if you could kind of point to any specific examples maybe within the asset classes. Some of your competitors obviously have very specific things to talk about, some are more successful than others related to revenues and/or volumes. So, I just wonder if you could give us any specific areas whether its energy, agricultural rates that you think there's potential opportunities moving forward?

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

Hey, Chris, let me start, if you don't mind, just with a few data points. Look, as Jeff said, we have never tried to predict volatility and we're not going to predict it this year. But our open interest level for our total oil business was at a record-level at the end of 2016. And underneath the covers, our WTI business, record-level; our Brent business, barely off record-level; European natural gas open interest, record-levels; our agriculture and metals business, record-level open interest; our equity indices business, which grew really well in 2016, record open interest level.

So, when I mentioned in my prepared remarks that we don't predict our trading and clearing revenues because we can't predict volatility, we feel good about where we are from an open interest standpoint. A lot of point talk about their volume growth and that's interesting, but not really relevant. What matters is where are your open interest levels, how much of your participation is commercial participants, what are you doing in terms of delivering new products to those customers. And if we look at the combination of those things, if there's a little bit of volatility, we'll grow a little bit, if there's a lot of volatility, we'll see some solid growth. So we feel good about the metrics, we're just not looking to predict volatility.

Chris Allen
Analyst, The Buckingham Research Group, Inc.
Q

Got it. I was looking maybe for new product development opportunities, things like that. I totally understand the whole volatility outlook.

Maybe just a different question on market data. I mean, maybe what are you guys seeing in terms of new customer trends? And – I mean obviously you talked a bit historically about opportunities to get deeper within your current existing customers on the IDC side and ICE side. But are you seeing any new customers coming to you for market data products and/or a new growth avenues there?

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

A

Sure. Well, first of all, let me just reiterate what I think you recognized, which is ICE had a business historically that came – the [ph] exhaustive (43:35) of a trading that was very targeted towards traders and the front office. And IDC had a business that was providing settlement prices that was very targeted towards the back office. And the combination of the sales force and what we're doing with the marketing effort is to be able to sell to the front, middle and back office across the broad array of products. So, if you talk to people in our commodity data business, they're seeing new customers, if you will, which are really the middle and back office of traditional IDC customers. So there's a commingling, if you will, of accounts that is going on and that's driving a lot growth that we see as a lot of our customers want to have a one-stop shop.

I mentioned that, separately, we're seeing a lot of growth in EMEA as people are getting ready for MiFID II as the Basel rules are kicking in and as changes are going on with Brexit and the regulatory structure, particularly in Europe. That's spilling over somewhat now into Asia. We're seeing – we have offices – sales offices in Asia. They're able to take a lot of these products that we're building and adapt them for Asia. And we're making some investments there that we think are going to pay longer term dividends.

And last year, we really saw the customer growth was in our historical energy commodity information which really grew a lot. That is still continuing to grow. There's some spillover coming out of last year as a lot of new customers are buying our data given that the market is becoming fragmented due to both competition and regulation and is driving the need for information. So, all of that is underneath the metrics that give us some confidence that this data business that we've been investing in is going to be a growth engine for us for a number of years.

Chris Allen
Analyst, The Buckingham Research Group, Inc.

Q

Thanks, guys.

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

Vincent Hung
Analyst, Autonomous Research US LP

Q

Hi. Can you talk about the Wells Notice that you called out in the 10-K this morning?

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

A

Sure. Well, it relates to an outage that the New York Stock Exchange had on July 8th of 2015. And that outage was as a result of a failed upgrade of software and a latent bug that was discovered as a result of that process. We hold ourselves and NYSE holds itself to really high standards of business practice. And during that process, was providing a lot of timely and accurate communication as to what was going on in that market and was attempting to alert the market to the technical issues as they were being identified, which we have a regulatory obligation to do.

So we dispute the appropriateness that – of the potential charges that the SEC wants to bring and we have a lot of defenses. And as a result of that, we made our own written submission to the SEC, articulating our points that at the end of the day it was a technology outage, it was very unfortunate, it was embarrassing and a black eye, but we don't believe that it actually violated any law.

Vincent Hung
Analyst, Autonomous Research US LP

Q

Okay. And what would be the impact if the new administration of the SEC repealed Reg NMS?

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

A

Well, that's – we'll have – let's sit down and talk about that over dinner. I think the trend from what is being discussed at least is a lighter touch form of regulation. We'll see how that actually gets promulgated. But I would tell you that almost anything that we do around the New York Stock Exchange requires a rule change and requires a approval by the SEC.

So, right now, we are operating in a very, very highly regulated somewhat restrictive business. So we would welcome the freedom to innovate and to do some – use some of the techniques and technology and things that we do in other markets and bring them into the U.S. equity space. So I'm thinking at least the rhetoric right now is quite positive towards the way we do business.

Vincent Hung
Analyst, Autonomous Research US LP

Q

Great. Thank you.

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

Chris M. Harris
Analyst, Wells Fargo Securities LLC

Q

Thanks, guys. A question on the outlook for data. It sounds qualitatively like there's a lot of good things going on. But when I look at the guidance, up 6%. It's down slightly from the prior guidance, I believe, which was 6% to 7%. But I know you've got moving parts in there, we've got FX and there's some divestitures going on. So can you help us? Is the guidance should we be thinking about essentially as an affirmation of where we were before, or should we be thinking about it in a different way?

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

A

I think you ought to be thinking about it as an affirmation of what we think's a terrific business. What we've said before – let's be really precise. What I said on the last call was we would grow at similar levels as we moved in 2017 as we delivered in 2016. I now said at least 6%. Underneath the covers, I noted that the pricing and analytics business, which is mostly our former IDC business, is going to grow faster than that and twice as fast as it did in 2016. I noted that in desktop, there'll be some erosion because of the IDMS sale.

So we feel pretty good and feel like we're affirming what we've said before and hope that it's not lost on people that it's a business that's going to grow at least 6%. It's delivering 52% operating margin, which just doesn't exist in the data space.

So it's a business that's growing quickly and a business that is generating very strong operating margin and it's one of the reasons why we're confident in saying we're going to return record levels of capital to shareholders this year. So, again, our view is it's an affirmation of a great business that's fully integrated and growing.

Chris M. Harris
Analyst, Wells Fargo Securities LLC

Q

Understood. Thank you.

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

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Hi. Thanks and good morning, guys. Sorry, Scott, just one more on the data side, just to maybe walk through the $12 million to $14 million that you talked about per quarter. So, let me just back up, I guess, so the 6% data guide, if we apply the currencies and I think you're using – tell me if you're using year-end or the current currency rates and that I think would knock it down like 1.5 point or so. So we're looking at sort of an actual 4% to 5% growth in the data. And then, you talked about the divestitures. Maybe you can just – that 4% to 5% includes the divestitures, is that correct?

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

A

The 5% that we put in the guidance includes everything.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Okay.

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

A

The at least 6% on constant currency includes everything. And again, I feel like we're missing the forest for the tree. This is a really good business where we've said historically we would grow similarly to what we did last year. We grew 6% to 7% last year. We're going to grow 6% this year. We're going to generate 52% operating margin and the pricing and analytics business, it's going to grow twice as fast as it did in 2016. This is a great business. And again, don't lose sight of the fact that I said at least 6%. And so that means we likely think more than 6%; similar to 6% to 7% meaning likely more than 6%.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Yes. And I definitely agree that trends are – seems [indiscernible] (51:30) just trying to actually get the numbers. And then maybe if you can talk a little bit about the exchange data component of this? And I know, Jeff, you alluded to competition from [ph] NASDAQ and FX (51:42) business coming into the markets and that actually helping your ability to monetize that given the expansion of volume coming into futures. I guess, how much of that improvement came from that angle and do you foresee that sort of in perpetuity, I guess?

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

A

Well, it's hard to know how to dissect a trend, but we had two things going on; one was that we decided, as a result of the fact that we were the primary market in many markets that anyone that wanted to see the primary market should compensate the people that – us and essentially the people that are contributing to the primary market. And so, we changed our focus towards making sure that we got those people in our orbit as paying customers.

And secondly, there just is this overall trend of people wanting more information. As the market fragments, the back office has to settle the books, what is the price? You've got prices all over the place and somebody has to stand there and say, this is how we're marketing the books, this is where the market is; a trader and a risk manager have to decide what's going on in this market, what is the price that I should buy at. And all of that kind of fragmentation starts to promote the use of algorithms, the front, middle and back office consumption of data.

And so, as we've been very transparent with you, we believe that there was going to be a fragmentation trend in the market for years and have been over the last few years setting ourselves up to be in the growth area, the earnings growth area of that market, which is why we positioned the company where we have today and it's why we did well in that space last year.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Great. Thank you very much.

Operator: And the last question today will come from Dan Fannon of Jefferies. Please go ahead.

Daniel Thomas Fannon
Analyst, Jefferies LLC

Q

Thanks. Could you guys update us on Trayports and kind of the implications or state of proceedings there? And then, inclusive of your guidance for next year, if we were to strip that out kind of of how that may would impact the growth?

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

A

Well, we're in an appeals process around Trayports. So there's no update because we don't know the outcome of that process. As a result of that, I would say to you, it's a business we like. It's a good business and it's doing well. So it is included in our guidance consistent with our appeal that we should be the long-term owner of that business.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Jeffrey Sprecher, Chairman and CEO, for any closing remarks.

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

Thank you, Andrew. I just want to thank everybody for joining us today. And Scott and I, Kelly will look forward to updating you on our progress during 2017. Have a good day.

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