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Intercontinental Exchange, Inc. (ICE)

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CORPORATE PARTICIPANTS

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Christian Bolu
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MANAGEMENT DISCUSSION SECTION

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC

Okay. We'll get started here. So, next on stage is Intercontinental Exchange. I'm very, very pleased to have the Chairman and CEO, Jeff Sprecher. Particularly a warm welcome to you, Jeff, and thanks for making it down so shortly after earnings.

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

Thanks.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC

Really appreciate it.

QUESTION AND ANSWER SECTION

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC

Q

Maybe a good place to get started here is on a data business. There still seems to be investor angst around the growth prospects of that business despite solid growth in 2016, visibility into 2017 in terms of your bookings being up 8%. So, maybe help us think about how we should think about the long-term drivers of growth, whether it's same-store sales, new customers, price changes.

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

A

Right.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC

Q

Help us think about [ph] the other (00:48) algorithm.

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

A

Sure. Well, good morning, everybody. Our industry, financial services, has gone through the same thing that many industries are going through, which is the digitization of commerce. And so, there are these macro trends that we see and we decided we wanted to accelerate our participation in those.

You've got tremendous amount of innovation going on, right now, in our industry that consumes information. You've got increased regulation, which, really, if you'd step back and say, what is regulation of financial services? It's about bringing more transparency, more reporting, more pre and post-trade analysis of risk management. And then, you've just got this massive automation that's going on right now.

So, the Big Data concept that we hear and see and read about in Silicon Valley is also coming to financial services. So, exchanges have always been in the data business, because we are the transparent venues for execution and people want to see what's going on. And we just decided to be a little less passive about that and a little more aggressive. Instead of giving our information to a wholesaler and allowing them to market and redistribute, what we've effectively done as said, we can go directly to people that are faster, cheaper. We can have a direct relationship with the customer. We can have more tailoring of what we produce, because we're getting more immediate feedback.

And I think that trend is going to play out for a while and I know, Christian, you and I talked a lot and I sound like a broken record, but I just look at my own behavior in thinking about my company and I just see how much more information I am consuming, where I'm getting news every day. I mean, I probably, this morning, already have read 20 different newspapers effectively by just the apps that I have that are gathering information.

And instead of reading whole stories, I'm reading headlines and maybe delving a little deeper and moving around. You know last night, before dinner, I read about the restaurant that we were going to online. And so, that kind of behavior is just part of our everyday lives and I wanted to figure out how in financial service we could tap into that. So, that's what you've seen us do.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC
Q

Okay. So, I want to hit on just pricing for a little bit and this question I asked, but I kind of wanted to just talk about what you said in terms of offering data to clients. As you kind of gather more toolsets, whether it's your reference data, your indexing services or the pipes and the terminals that you have...

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

Right.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC
Q

...is there an opportunity to actually offer more to clients in an enterprise-wide way and probably actually drive cost down while giving the client more value?

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

Yeah and it is. And essentially creating unique bespoke bundles for different clients and that's really what we've been doing over the last year as we've been going through our own inventory and figuring out who's interested in it and what other things we have. So, by the way, internally, we've talked a lot about reorganizing the company, so that we're better equipped to have trained sales people and people in the frontline that can offer multiple services to end users.

But for us, it's the information is the key. So, we don't really care whether you want us to send you a file every so often, whether you want us to put a file on a server in our datacenter and then you come get it, whether you want it real-time on a pipe or whether you want it somehow delivered on a screen to a desktop. We need to have all of those channels, but we're kind of agnostic as to how you want to take it and what we do find is that everybody has a slightly different view on, depending on their own resources and technical capabilities, how they want to take that.

But you've heard me talk about the fact that – and I really view myself as an entrepreneur much more than a manager and when we bought the New York Stock Exchange, we ended up with this datacenter that pretty much everybody is connected to. And because of the complicated market structure in the U.S. equities market, the New York Stock Exchange has an obligation to check prices around at all other exchanges before we do a match.

So, we've always had a network that interconnects ourselves. When we bought Interactive Data [ph] company (05:58), they needed real-time information from exchanges. So, they're hooked to like 170 exchanges to get information that they use in evaluating fixed-income assets. So, we said, gee, we have our datacenter, it's got a network, IDC has all the other exchanges coming through in a ticker plant, we have all this information, our customers – most customers are somehow on that network or can get to that network pretty easily.

And, suddenly, we've got kind of this holistic environment that we can exploit in new ways that any of those businesses as a standalone wouldn't have been able to do.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC
Q

Let's get back to topic of price. Pricing seems to be...

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

Right.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC
Q

...one that always comes up. Just curious if there is a structural limitation in terms of how much pricing can go up?

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

Yeah. It's interesting, because there's a view in the world that data prices are really escalating and it's actually not true, data prices are actually collapsing. It's just that everybody is buying more data. So, their overall spend is going up. The wallet is getting bigger. The actual unit price is collapsing. And so, there's a tension in there about what should that net wallet be, but we, I think as an exchange industry and I think some of the redistributors have done a poor job of figuring out how to price things, so that customers can actually see that the actual price is declining. It's just that the customer is choosing to consume more. I think if put in that light, people would have less angst about it.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC
Q

Right.

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

But the other thing that's going on is that, that everyone is cost conscious in this environment. A lot of earnings growth, right now, is coming from people who are cost conscious and that's a healthy thing, but what you really do see is a lot of jobs being automated.

So, I'll give you an example. When we bought the New York Stock Exchange, we had a very big spend on compliance. And one of the ways we reduced that spend is we invested in a much more automated compliance infrastructure that can do automatically some of the manual jobs that we were doing that was consuming a lot of head count and, frankly, taking a lot of time.

So, we, ourselves, started consuming a lot more information in the infrastructure we built in order to reduce our head count. So, our data spend went up and if you were to just talk to the purchasing people in my company that by data they would tell you, oh, my god, our spend is going up. But, look, when you talk to me, I can say, gee, our savings were really great, because our overall efficiency improved and costs went down as a result of head count reduction. And that just kind of is a natural evolution of digitization of markets.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC
Q

Right. Talk about Europe, seems to be an area, a region of -it's a bit of a tailwind for you.

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

A

Right.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC

Q

Looking at what's driving that, how sustainable is that growth?

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

A

Yeah. So, we've done well in Europe and a lot of it is that this MiFID II regulation and EMIR, which went into affect a while back, but is sort of now coming right to the forefront, is driving people to look at their own systems and how they report and how they do things. And so, there's a lot data consumption coming out of EMIR for us right now in preparation for that. I look at them as if they're sort of behind, if you will, of the Dodd-Frank curve for those of you that are Americans. We've been going through that for a while now. It's sort of just starting in Europe. So, we see that for a few years of growth there.

I've talked a lot about the fact that I don't think that MiFID II is a good piece of legislation particularly in light of Brexit. And one of the reasons I say that is that it's going to cost a lot of money to implement that regulation, that wallet is going to go up, but while I complain about it, we're in there selling those tools that are going to get a big piece of that wallet. And by the way, I've had zero influence on it rolling back. So, I've had a lot more influence on us making money underneath it.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC

Q

I mean I guess since you brought up MiFID II, you think it's sustainable that it actually happens in a post-Brexit world? I guess when it was formulated, we didn't have the light touch, [ph] financial (10:46) light-touch regulation in the U.S., we didn't have Brexit. Is your view – do you think it's actually [ph] something that I can see (10:54) the light of day?

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

A

Yeah, it definitely has some headwinds as it's [ph] drafted (10:59) right now. When you think about it – one of the unique things about MiFID II is it was both the implementation of the G20 commitments for financial services regulation, but it got coupled with a bunch of market structure changes. And many of you that are in the audience here know that, for example, unbundling research. I mean they had nothing to do specifically with the G20 commitments. It was politicians who decided that they wanted to take advantage of that and sort of change market structure.

And so, those competition issues that entered into that discussion that informed that legislation look really different when you have the UK out of the EU, when you look at the competition in financial services with an ex-UK and then you lay on top of that, we have a new administration in the U.S. that at least has run on the notion of rolling back excess regulation and lowering taxes. So, for global markets – global capital, we'll seek the cheapest and best place to deploy itself. And so the competition has gone up for Europe and the UK at the same moment in time that they're breaking apart.

I think changes in regulation is a lagging phenomenon. So, MiFID II, some of which is in effect and more of which goes into effect on the first of next year, will continue to roll forward, but there are opportunities under MiFID II for local regulators to delay things. There are other kinds of implementation measures that haven't been completed yet and they're the hard ones.

And so, I think, those will sort of automatically slow down as parties start thinking about their own self-worth in a future where these changes are going on. That would be my expectation. Unfortunately, it's going to take time.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC
Q

Right.

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

So, we're going to go through a complicated period here where the U.S. may be going one way and Europe may be going another way and the UK is trying to sort out its role.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC
Q

Right. Maybe switch back to stuff that's in your control.

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

Yeah.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC
Q

The indexing business...

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

Yeah.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC
Q

...maybe just talk about the growth opportunities there. Clearly, IDC gives you quite a bit of data to help you grow that business, and maybe just talk about how you're thinking about growth.

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

Yes. So, ICE has got – we've ended up with a portfolio of interesting indices and maybe you don't think about us in that way, because most of our indices are not necessarily equity indices, which are the ones that we all are benchmarked to and we talk about and you hear about on the radio on your way home every day on how the markets did.

So, we have LIBOR. We have the Dollar Index, which is the dollar against the market basket of currencies, so an FXed index. We have the Brent Crude Index, which has been a core piece for us. And now, with IDC we have all of this bond data. And there's a big movement in the industry right now to make it easier to buy fixed income products by virtue of putting them in ETFs or by creating bundles of bonds in some format and then benchmarking them or organizing the bundle against an index.

And so, there's a lot more index creation going on right now in that bond space. For those that create those indices, because bonds are – unlike equities, you buy a bond knowing that it's going to be retired. So, there's a constant restructuring of the indices. There are a lot more events in the life of a bond that may cause restructuring. So, they're a little more dynamic. If we all sat here and have big ideas, we'd be hard-pressed to come up with a new equity index that would really generate interest, but what we're seeing is a lot more interest in creating bond indices because you can own the IP. They really will be unique. There's so many SKUs in the world that you can create something of value.

So, we're doing a lot with a lot of people that are in that space right now where either we'll calculate it, we'll give you the pricing. We'll own the index if you want. We can put our name on it, if you like our branding. We can use our marketing, distribution and we'll list you on our equity exchange if you want to be a public vehicle. So, those are all part of the package that your first question asked me about, which is we've got a really nice group of assets that we can offer as a bundle.

Christian Bolu Q
Analyst, Credit Suisse Securities (USA) LLC

Just maybe on the economics of the business. Margins are pretty healthy at over 50%...

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

Right.

Christian Bolu Q
Analyst, Credit Suisse Securities (USA) LLC

... [ph] which I think is needed in the (16:14) industry. But when we think about the incremental margin on new revenues, is there a kind of way we should think about the long-term opportunity for margins in that business?

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

Yes. So, we've been pretty conscious that we really curate our businesses. I mean, we've been known for having done a lot of acquisitions, but we've also done more dispositions probably than most companies because – I'm always looking at the portfolio and saying, the thing we're doing, is it something that we're really good at or are we just doing it because somehow we've inherited this or we've drifted into this space?

And I know what my company does well. And my company really does technology well. So, we do well where the data or the trading or the compliance tools or what have you are rooted in a technology that we can build and we can build it one time and then, we can resell it many times, which is what drives those high margins. We do not do well – if you want us to come sit down with you in your office and have people deployed to help you and walk you through something and have a more consultancy or customized bespoke experience, we don't do well, that's just not what we're good at.

And so, what you see me doing and the rest of my colleagues and management is curating to the higher operating margin businesses just because it's what we do well. So, I do expect that that margin will expand because as those businesses grow, I think the margin – because we want to build it once and sell it many times, those margins will grow.

We're going through a period of investment right now, because this is a bit of a new focus for us. So, we're building a lot of bespoke and proprietary things underneath the covers to allow that margin to continue to expand. So, I think it's going to be a great business. In a macro trend, it's going to drive earnings for us.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC

Q

Maybe switch over to the transaction businesses. We'd just start on energy.

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

A

Yeah.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC

Q

We've had two phenomenal years given elevated volatility...

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

A

Yeah.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC

Q

...and arguably that's because OPEC came out of the market. As they come back into the market and prices are going to stabilize around this $50 kind of level...

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

A

Yeah.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC

Q

...kind of how do you think about volumes going forward in that environment?

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

A

The International Petroleum Exchange of London was a company that I acquired in year 2001, so we've owned it now 15 years. And during that period that we've owned that company, every single year has been a record in growth above the year before. And that company has had 20 consecutive years of growth. So, if you think about it we went through, there were literally wars in the Middle East. We went through the financial crisis. We went through the birth of fracking. We went through dislocations of U.S. oil in the storage. There've been so many amazing, what look to be like either headwinds or tailwinds over that period, yet that contract just grows and grows and grows.

I tell you that because I just would never bet against that. And we start the year with record open interest. In other words, the positions that are in our clearing house which, over time, need to be managed or dealt with. So, we start the year knowing that we've got a really strong hand. So, I just think the energy business – transaction business is going to be really good this year.

And that has nothing to do with Brexit or the fact that – or the Trump administration or any other thing you can come up with, the potential Saudi Aramco IPO. All of those things are interesting, but I wouldn't bet against this continued streak because there's clearly a macro trend going on underneath that where the world is consuming more energy information, is doing more risk management around energy that overcomes all of those kind of year-to-year changes in the market.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC

Q

And you've seen the change in the customer base. I mean, over time you've traditionally been very strong with the commercial participant.

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

A

Yeah.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC

Q

So, you see anything that's changing underneath?

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

A

Not at that level because we still feel like there's a lot of commercial users to touch and we really continued to put our focus on commercial. So, in other words, we don't really have a retail distribution for energy. And if one was going to go after retail for futures, where you'd really go would be Asia because there's a lot of individual, almost churning-type trading that comes out of Asia. But we haven't wanted to commingle that with these commercial users that we have that really like the market. In other words, I think the incremental retail guy might actually drive – a small retail guy might drive commercial out of the market or out of our market.

So, we've been pretty focused on, just continued down that path of finding more and more commercials, get in their organization. Let's show them that they can see the information in real time, demystify the ability to do business, figure out how to get them into the clearing house, and that year after year after year has just paid returns for us.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC

Q

What about the competitive landscape? For a long time it's been a duopoly limiting yourselves and CME.

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

Right.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC
Q

But now we see NFX at NASDAQ at least optically gaining share, maybe your thoughts on...

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

So, I've long said that I think there's going to be more fragmentation in the markets due to competition and regulation. And what really I've been saying is that once – when you had an open outcry trading floor, you needed a giant room. You needed all this infrastructure. You needed everybody to show up on the same day to even get the thing started. I mean, it's very, very hard to create an open outcry competitor.

In a digital world, somebody at Starbucks with a laptop can come up with something that is unique and we've seen these social networks form up. I mean every five years, there's another one and we're hoping to take Snap public soon on the New York Stock Exchange as sort of the really most unique and innovative one that's come up lately. But you could see how quickly somebody can form a network and so, competition as a result of that is going to increase just because the barriers to entry are falling.

And I don't always resist that. We figure out how do we position ourselves so that we can benefit from that trend. And so, really anyone who wants to trade on an alternative market will only do so if they know that they're getting the same pricing they would in the main market. And so, that's been driving data sales for us. So, as somebody may go and be enticed away with, let's say, a lower commission or something, they're going to need the data and information. So, our services, if you will, have become unbundled. And we're picking off the parts of the market, and it's driving overall growth for my company.

And a lot of times when people go in, some of the techniques that are being used right now, particularly by the people that come out of the equities world, are to pay for order flow, which is an equity technique, pay people to trade basically. And hope that you all will look at that and say, wow, look at their volumes and not ask whether or not they're making any money, because actually volume growth actually causes them to lose money.

So, we can't stop that trend, but we want to participate in those payments by charging customers for the right to see everybody else's participation on the main market. And that's worked pretty well for us. We've done well. So, we don't fight competition and sort of don't get too nervous about it. We figure out, okay, how can we change our offering and both keep our customers and exploit the fact that we know some will leave.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC
Q

Maybe switching gears to the regulatory backdrop. A lot's in flux, but there is some talk about potential for things like Reg NMS to go away. I know very early days, but maybe any thoughts around how that could potentially impact your businesses.

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

It's interesting because there's been a consolidation, if you will, in the U.S. equities market. But when we have consolidated those markets, we can't actually collapse the underlying businesses. So, each one of the major exchange groups has a lot of medallions, if you will. And we're required to, because each exchange – if you want to have a different pricing structure or different order types or different matching algorithms, the SEC has always required that we do that in unique buckets, as opposed to in a normal business where you just have a department store and you'd have lots of different merchandise.

And so, there's a lot of cost affiliated with that. You need a separate Board of Directors, a separate compliance team, separate this, separate that, separate technology, separate billing. And so, I think if we get rid of Reg NMS, you'll see – and some related rules around that, you'll be able to see the market sort of consolidate and take costs out and compete then on better, faster, cheaper.

I'd also hope that they get rid of that. The SEC has told us how many digits, as an exchange, we can have in prices. And we're limited at adding the next incremental fractional cents to the price of a stock. But that's what's going on in the dark pools and in the direct market-making, as there's an extra digit there that allows people to price-improve, if you will. So, we fight the off-exchange trading with one arm behind our back.

So, I would think that any holistic review of NMS would also be a review of the market and dark trading versus light trading and sort of create a level playing field. That would be my hope. I'd look forward to that, because I think we'll do well there. The New York Stock Exchange is the largest venue for trading. The NYSE Medallion itself, it's doing really well. The listings are doing really well. And I just feel like we have a great platform, and we're putting our new Pillar technology that's been rolled out over the last couple of years. And we're just in a good position to compete right now.

Christian Bolu Q
Analyst, Credit Suisse Securities (USA) LLC

Do you think there were any offset though in a non-Reg NMS world? So, if you have – basically have consolidation of share that should [ph] accrue (27:33) to you, but then the people need less data because they don't need to look at...

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

I don't think so in the sense that what we have right now and what people are buying from us is data in – we've restructured the data that comes out of the exchanges in a number of different kinds of formats. And what people are buying is not necessarily, hey, I need a lot of different Medallion feeds, as much as, hey, I want Big Data in a lot of different formats. Some people want just the top of books. Some people want the depth of markets. Some people want the data that's all time-stamped. Some people – so, in other words, give it to me serially. Some people say aggregate it up by price level, so I can see what's going on. So, the data feeds that you really hear so much about are actually multiple products that are in there. And many people buy all of them, because they have different systems that look at markets in different ways, and that's really the driver, if you will, of the growth is our ability to continue to segment what we offer and distribute it in a different way.

Christian Bolu Q
Analyst, Credit Suisse Securities (USA) LLC

What about corporate tax reform? I think, obviously, the [ph] – taking on rates (28:46) is fairly straightforward...

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

Yeah.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC
Q

But things like a border adjustment tax or...

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

Right.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC
Q

The lack of an interest – debt interest tax shield...

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

Right.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC
Q

How do you think about those things affecting your business?

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

We've had above a 50% operating margin. So, we have been a taxpayer. We have the good fortune of making money and paying taxes as a consequence. About half of our businesses is outside the U.S. and about half is inside. And so, largely – and we've – because of the way our businesses operate, we haven't had repatriation issues in order to be able to return capital or to do things in the U.S. I think it would be great, because as we continue to grow, if we can have more flexibility and repatriation, I think long-term that will be beneficial for us. I think the half of our business that's in the U.S. will obviously benefit from lower taxes.

And in terms of import/export tax, we're in the business of helping people move capital globally, and capital is not necessarily a good – and I haven't heard anybody suggest that there's going to be a tax on capital. So, we're well-positioned to help our customers figure out how they want to deploy capital around the world. But long story short, I think at the margin, if some of these things were to really happen, you will see capital markets business be biased back towards the U.S., because I think the U.S. will be creating a better environment for capital formation, assuming that things that we hear about were to move forward in a way that many of us are hearing they may move forward.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC
Q

Well, speaking of capital, on capital management, it feels to me like there's sort of an evolution in your philosophy around how you're thinking of deploying capital more towards return and maybe smaller deals rather than in large-scale acquisitions.

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

A

Right.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC

Q

So, maybe just talk about what's driven this, I guess, evolution in philosophy?

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

A

Sure. Well, there was a consolidation that went on in our space, and to a certain degree, I may have [ph] thought that (31:01) I was an early participant in consolidating up exchanges. And you now have these large exchange groups around the world. So, the consolidation opportunity – there are still consolidation opportunities, but they're less obvious. And as you can see from the Deutsche Börse-LSE deal, they involve much more competition involvement and they're more complicated deals to put together. And so, just knowing that that's the backdrop, we're generating a ton of cash. And we look at our own shares through our own lens and think that the best way for us to return capital is through share repurchases right now.

We did raise our dividend – announced our dividend increase yesterday, 18% raise. So, we have been raising our dividend. And philosophically, the board – my board believes that a good company grows earnings and raises its dividend. That doesn't necessarily have to – that's sort of just the trend, not necessarily an absolute as to where the dividend should be, but it should be growing with the company and maybe not pari passu, but just indicative that it should be constantly growing and the company should be constantly growing. And so, we did raise the dividend. But the excess cash we look at right now, the best way to return it is our own shares.

We think that the things that you've asked me about are really good tailwinds that are going to drive the company for the next few years. We positioned it really well. We have a great platform. A lot of things we can do internally to accelerate what we're doing. And so, we don't need to do anything. And so, I did mention on the call like if we do anything, it's probably something that would be a small acquisition where it would really have a high return on invested capital. But otherwise, we're going to be focused on building out the platform that we have, because we like the positioning that we put ourselves in.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Let me open it up to the audience. Is there any questions?

Q

Hi. Could you comment a little bit on potential cyclicality of the business? If we do see an increase in Wall Street head count and trading volume, your business now is more diversified and the banks have spoken about how they're using more straight-through processing and more technology. So, do you see the business as less cyclical or a potential beneficiary, if that cyclicality does happen?

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

A

Yeah. It's a very good question. I think that what is interesting about regulation to me is that there were some macro trends that were going on in the market, and politicians saw those trends and sort of codified them in regulation. So, one of the trends that was going on, for example, is people were coming to more transparent markets. Markets were standardizing. Markets were digitizing. Markets were going into clearing houses in order to get the benefit of netting because it's more capital efficient.

Dodd-Frank may force people to do a lot of that. But I honestly have always felt that it was going to happen regardless, and oddly, Dodd-Frank – because it takes a while for legislation to be put in and then there are dates and deadlines and things get postponed, in a weird way, it might have actually frustrated the timing that the market would have done itself. So, I think about, as that rolls back, that the trend is – or most of those trends are already there and the trends themselves aren't going to roll-back.

I think as I mentioned and as you pointed out, there's going to be more digitization, more straight-through processing, more analytics that are used in making decisions. You and I are using more analytics in making common day-to-day decisions right now and happen to carry a device in our pocket that allows us to do that. I do think there's going to be more mobile. We're going to have to deal with that as an industry because of controls and cyber security and things that make it hard to take decision-making outside the four walls of an office, but it's coming.

And so, I think we're very well positioned. What I do think that you're kind of seeing is in just the prospect of rolling back regulation has brought a certain kind of animal spirits back into the market where people are feeling confident and velocity is increasing. Obviously, share prices are increasing and people are feeling good about their – talking about their business and making future plans in a way that they weren't before. So, I think all that is good for us at the middle of things.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC

Q

Any other questions? Yeah, maybe one last one from me.

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

A

Sure.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC

Q

The U.S. options business, you've talked about the disposal of businesses that don't have the growth and margin characteristics that you don't like.

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

A

Right.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC

Q

So, just talk about how you think about the long-term of that business [ph] that's with you (36:06)?

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

A

That's the most confounding business that we have, in that there's no question that the use of options as a tool in risk management is increasing, yet options volumes on listed exchanges are decreasing. There's more – for whatever reason, in a decreasing wallet, there seems to be more competition coming in. I'm not sure that the people that are looking at the market are seeing sort of the overall spend. So, it's accelerating the decline in rate per contract. And so, you kind of have two – and then you've seen the market consolidate with the Bats and CBOE getting together and ISE and NASDAQ getting together, two big options platforms, which one would expect happen in a shrinking business.

And so, we're in that business because we own the New York Stock Exchange and we believe in the hybrid floor model, and it's very, very easy to allow options brokerage to be on that floor. It has no real incremental cost to us. And so, it's not like we would exit the business, because there's no sort of benefit to exiting. The flip side is, as a manager, I've got two choices. We can cut prices and then I can sit in front of you and talk about our improving market share, or we can just try to maximize the footprint that we have. And I'm choosing the latter, which is it is – the market is what it is. I hope it will turn around, because it's odd that there's so much more conversant knowledge of options, it's odd that it would be decreasing.

I do think, by the way, the use of futures is really increasing. And I know from – I'm on a university endowment board, and I'm watching our own behavior, as I help to manage that money, the use of futures to get exposure to debt and equity in new ways. And so, we're taking – we, in that environment, are taking future risk in the form of regulated futures as opposed to regulated options. And that may be some of the competition that's going on, which would be good for us in the sense that we have a futures – strong futures platforms. But I'm not interested in the market share gain. It's just not what we do. We do better, faster, cheaper kind of digitization, use technology and try to focus on what we do well. And there are others that like to play the market share gain.

It's funny – and you can do this math, if you take the rate per – you can cut – it's one of the most efficient markets that we participate in. We can cut our price and our volume will absolutely go up, and it will go up by exactly an amount, so that our net doesn't change. And so, it's like okay, what are we doing. So, I tell my team, don't even focus on that. Focus on what we do well and find the customers that like what we do and charge them a reasonable amount of money. And if we lose market share, I don't care. Just maximize your business and forget about the shares. So, now when Credit Suisse writes a note about we're losing share, I will probably be the only one that is not worried about that. And you guys may say, oh my god, they're going to hell. But we'll feel okay about it. But that's a tough business. Of all the businesses in financial services, that one is the tough one.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC

Okay. Well, in that note...

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

Yeah, thanks.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC

We'll wrap it up.

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

We got a lot of good businesses by the way. Don't forget the other 30 minutes that we talked about here.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC

Okay. Thank you very much, Jeff.

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

Thank you very much.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC

Thank you.