10-Sep-2014

Intercontinental Exchange, Inc. (ICE)

Barclays Global Financial Services Conference

CORPORATE PARTICIPANTS

Scott A. Hill
Chief Financial Officer & Senior Vice President

OTHER PARTICIPANTS

Kenneth W. Hill
Barclays Capital, Inc.

MANAGEMENT DISCUSSION SECTION

Kenneth W. Hill
Barclays Capital, Inc.

We're going to go ahead and get started right now. For those of you who don't know me, I'm Ken Hill. I cover the brokers, asset managers, exchanges here at Barclays. Today, once again, we're pleased to have Scott Hill back, CFO of ICE at our conference. We're going to change up the format a little bit, we're going to go through a couple of slides, and then we're going to start a little bit of a fireside chat up here.

Scott A. Hill
Chief Financial Officer & Senior Vice President

You know what? I've got to figure out how to flip the slides.

Kenneth W. Hill
Barclays Capital, Inc.

We have got a clicker [inaudible] (00:24).

Scott A. Hill
Chief Financial Officer & Senior Vice President

All right. Thanks, Ken. Thanks everyone for your interest today. We appreciate it. I'm Scott Hill. I'm the CFO at Intercontinental Exchange or ICE, as we're better known. And before we get started, I'd just point you to our Safe Harbor statement on slide two. But I'll begin the presentation on slide three, where you can see ICE's track record of consistently delivering top line growth across our diverse network of exchanges and clearinghouses, by offering innovative products, data and solutions that meet the risk management needs of our customers.

Since our IPO on the New York Stock Exchange in 2005, we've consistently grown revenue regardless of economic cycles. We maintain a strategic focus on our markets to stay ahead of evolving regulation, evolving market structure and evolving customer demands. ICE is adept at capturing the opportunities that come along with change.

ICE started in 2000 as a market for energy trading. As you could see on the screen, today, we operate 11 exchanges and 5 clearinghouses across nine asset classes globally. Our growth continues to be driven by a mix of secular trends, organic initiatives and selective M&A. Our acquisitions of NYSE, SMX and SuperDerivatives, are the latest examples of our commitment to product, geographic and risk management expansion to support our long-term growth objectives.

I'll move to slide four, and you can see a snapshot of our first half 2014 performance. Despite the confluence of low volatility and regulatory uncertainty contributing to a 19% volume decline in the first half, revenues were relatively stable. We continue to focus on operating efficiencies and deal-related synergies, and that helped operating margins to expand to 50%, which enabled our adjusted diluted earnings per share to increase slightly in the first half versus the prior year, continuing our track record of growing earnings on top of prior year growth.

And importantly, operating cash flow also increased to $836 million in the first half. And this solid cash generation funded our organic and M&A growth investment, as well as our capital returns to shareholders. So despite the challenging macroeconomic conditions, our diverse business model focused on customer needs and strong execution, has enabled us to continue to generate value for our shareholders.

Moving to slide five. I'll walk you through some of our key markets. While 2014 has been marked by low price volatility across virtually all sectors, our Brent crude contract is an example of the broader long-term secular growth trends. Brent volumes grew at a double-digit rate in both June and July, and achieved record open interest as well. Once again, we've grown market share during the year. As a result, ICE operates the world's leading crude oil futures market in terms of volume and open interest.

Growth in our global oil markets is supported by a solid base of commercial customers, who rely on our markets for managing price risk. We list over 400 oil and refined oil products to support those customers' hedging requirements.

Moving on to our European interest rate complex on slide six, you can see the impact of the zero interest rate policy in the Euro zone, highlighting the regional nature of rates products. This is not similar to the dynamics in the U.S. post 2008 and 2009. Europe lagged the U.S. entering the downturn and is lagging the recovery.

While volumes in Euribor contract have declined year-to-year, volumes across Sterling and Gilt contracts have increased in the first half, reflecting improving economic sentiment in the UK. We had record Sterling volumes in the first quarter, and strong double-digit volume gains in the second quarter, with open interest up 67%. And in August, we had a record day in our long-term Gilt contracts.

Together with our short-term contracts, we have introduced products further out the curve. We've also launched additional products across multiple European countries. With our expanding rate complex, we're well-positioned to serve our customers as economies improve and volatility returns. And importantly, as we position ourselves for a volume recovery, we are completing the transition of the interest rate products to the ICE platform by year-end, which will mean that future volume growth will be supported by a much leaner cost base in a more robust technology platform.

I'll touch on our CDS markets on slide seven. We have established a leadership position in CDS clearing with cumulative growth [ph] notional clear to (04:51) $56 trillion, including $8 trillion in client clearing. We've seen solid growth this year, with clearing revenues of $49 million for the first half of 2014, which is up 30% over the prior year. This has been driven by mandatory clearing in the U.S., with the buy-side becoming more active as a result of portfolio margining, and a capital efficiencies that are available through clearing in the U.S.

We cleared nearly 500 unique CDS instruments today and are the only clearing house offering single name instruments. And we continued to launch new products for clearing, which combined with the eventual European buy-side mandate, should enable us to continue to grow our CDS clearing franchise. We also believe there are OTC clearing capabilities combined with our rates futures franchise, that can help us develop a compelling interest rate swap clearing offering in the future.

Slide eight highlights the strong performance of our NYSE Listings business. The strength of this business is directly correlated to the strength of the New York Stock Exchange brand and the differentiation of the NYSE market model.

For the first half of 2014, we continue to be the global leader in capital raising with $83 billion in proceeds, including a 52% share of tech IPOs. The listings business continues to be a solid growth contributor with revenues in the second quarter up 8%, excluding the purchase accounting adjustment related to the NYX acquisition.

We're seeing solid momentum throughout 2014 across sectors and market caps. The IPO pipeline remains strong and the third quarter is shaping up to be a record period for IPOs. Lastly, we remain committed to advocating for market structure improvements on behalf of our listed companies.

Let me switch gears and return to our overall financial performance on slide nine. Cash generation in the first half was at record levels. On a trailing 12 month basis, we reported cash earnings per share of $9.64 through June 30, an increase of 6% over the prior year. At the midpoint of the year we had roughly $800 million in unrestricted cash and short-term investments, excluding the $1.3 billion, which we set aside to repay our 2015 euro notes.

Taking the reserve cash into account, we've already achieved our debt-to-EBTIDA target of 1.5 times and we may move around that ratio from time to time based on cash flow, strategic initiatives, and capital return plan.

Our strong cash generation allows us to invest in our business even as we return capital to our shareholders. To-date in 2014, we paid $150 million in dividend. We've now bought back over $400 million in shares and we spent $500 million on acquisitions that have expanded our geographic risk management and data footprint. And importantly, we have over $600 million left in our share buyback authorization, and we will continue to deploy our cash to generate the greatest return to our shareholders.

So to summarize, slide 10 list the number of the key growth drivers both top and bottom line that I've mentioned today. We have over $300 million in synergies left to realize, which will generate strong operating leverage and profit growth.

We continue to expand our product offering to meet the growing risk management demand of our customers. Interest in our markets continues increase as evidenced by growth in user IDs, open interest, and demand for market data. These are all three of our leading indicators of longer term growth potential.

Regulation continues to drive more trading on exchanges and in the clearinghouses, and we continue to invest in expanding our business via M&A including ICE Futures Singapore, ICE Benchmark Administration, Cetip in Brazil, SuperDerivatives, and this morning we announced the acquisition of a majority stake in the Holland Clearing House.

Importantly, again, our ability to grow earnings in cash, not only it funds our investments in future growth, but it also enables meaningful and growing capital returns to our shareholders via dividends and buyback. We don't have to choose between the two, we can invest in our business and return capital.

Let me wrap up on slide 11. ICE has consistently delivered not just top line, but also bottom line growth based on our customer focused innovative network of exchanges and clearinghouses. And we've consistently delivered on our commitment to grow, to execute, and to outperform. Already this year, we've completed the IPO of Euronext, divested noncore businesses, and seamlessly transitioned Liffe U.S. to ICE Futures.

And we have many other strategic and operational initiatives underway for the balance of the year including the Liffe transition in London to the ICE platform, the re-launch of ICE Singapore and the closing and subsequent integration of SuperDerivatives.

Since 2006, we've consistently grown earnings regardless of the economic cycle. We believe we're well-positioned to continue that track record of generating growth and shareholder value in the future.

With that I'll turn it back over to Ken.

QUESTION AND ANSWER SECTION

Kenneth W. Hill
Barclays Capital, Inc. — Q

Okay. So what we wanted to do today was kind of weave in some audience response answers.

Scott A. Hill
Chief Financial Officer & Senior Vice President — A

Okay.

Kenneth W. Hill
Barclays Capital, Inc. — Q

And hopefully that can kind of shape the discussion...

Scott A. Hill
Chief Financial Officer & Senior Vice President — A

Great.

Kenneth W. Hill
Barclays Capital, Inc. — Q

...a little bit here, hopefully, it's not disaster. Let's see how this goes, we haven't tried it before. So the first question up on the screen, it's a general one we ask for each exchange or actually company we have coming. If you're underweight in the stock, what would cause you to change your mind?

So an improved volume environment, more attractive valuation, decreased headline risk, more attractive capital return policy or clarity around the company strategy? So clearly, volume's right there. So 61% looking for volumes, 18% on valuation, the rest are kind of under the 10% range. I don't know if you have anything to add there, I mean, I guess...?

Scott A. Hill
Chief Financial Officer & Senior Vice President — A

Well, I'll give you a reaction to it, right. Clearly, the volume environment right now is soft. I guess my reaction would be though, I look at the first half results we had. Volumes were up 19%, revenues were down slightly 1%, but earnings grew. And we generated strong cash flows, which were up in the prior year. And so, I look at it – and again, trust me, there's nobody that wants volumes to come swinging back more than I do, right. But if I look at, what are the indictors, open interests are up in most of our products, we've got more people login into the system every day, we've got more people buying our market data.

The commercial customers that are our primary customers are there, right. They've got positions they need to manage, they've got physical commodities they need to manage, they've got interest rate exposures that they need to manage. So the demand is there when the volatility returns, right. But implied in that answer is that, we need volumes to come swinging back to generate growth. We've got over $300 million of synergies still to take out over the next couple of years, that alone is going to generate growth, it's going to expand margin.

And if you look at what's the earnings projections are over the next couple of years from a Street standpoint, there's a pretty significant growth built in. And so, I guess as I step back and think about it, if you're waiting to see volumes before you come into the stock, you're going to miss it, all right you're going to be late, because at the end of the day, we're going to grow earnings without volumes coming back, and all the indicators suggest that when volatility returns, volumes are going to come swinging back in. And to be frank with you, that's why we're in buying the shares. In case it was too subtle in my remarks, we talked about on the earnings call, we were at $350 million, we're now over $400 million that we bought back in the quarter.

And frankly, we're buying because the valuation right now is disconnected from, frankly not only what we think the fundamental value of the company is, but the value of the stock right now is disconnected from what the external expectations are, and what we think the relative performance of the company is.

So, again, all the indicators are our volume will come back. I understand, all of us would like the volume to come back sooner and I know you'd love from me to tell you which quarter that's going to happen. But at the end of the day, when it does come back, we're going to have a much smaller cost infrastructure and so that profit or that revenue is going to drop straight to the bottom line when the volume starts swinging through.

Kenneth W. Hill
Barclays Capital, Inc.
Q

Okay. The second question, we have is kind of a follow-up on that.

Scott A. Hill
Chief Financial Officer & Senior Vice President
A

Okay.

Kenneth W. Hill
Barclays Capital, Inc.
Q

Volume, assuming that was kind of the headwind. People...

Scott A. Hill
Chief Financial Officer & Senior Vice President
A

...that maybe where it was.

Kenneth W. Hill
Barclays Capital, Inc.
Q

Correct. So where do you see the biggest opportunity for the firm going forward? And kind of [indiscernible] (13:08) some of the businesses, cash equities, the legacy ICE Futures business, Liffe, OTC clearing and trading and some of the non-transaction services businesses?

Scott A. Hill
Chief Financial Officer & Senior Vice President
A

It should have all of the above six.

Kenneth W. Hill
Barclays Capital, Inc.
Q

All right. So 38% feel Liffe, which probably tend to agree with and then 24% on the OTC clearing, 24% on the legacy products and then a smaller portion 14% on the cash. So kind of leads in here to the first question I had. You transitioned Liffe U.S. over the ICE, then you've got the – just wanted to get an update on how the integration is going then in the UK? And if you see that as a catalyst for more activity and product launches, I think you mentioned you've been limiting some of the product launches...

Scott A. Hill
Chief Financial Officer & Senior Vice President
A

Yes.

Kenneth W. Hill
Barclays Capital, Inc.
Q

. ..over the course of the last couple of quarters?

Scott A. Hill
Chief Financial Officer & Senior Vice President
A

Yes. So the integration is going really well. I mean, we said from the very beginning of the deal that it would be the end of 2014 before we had the full integration done. We're still on track to hit that integration point. Yes, it's a big a reason why we've said that, lot of the synergies that are related to that deal literally happen during December.

So you won't really see it in the run rate until we get into the first quarter of next year. So we're well on track to that. It kind of goes back to my comment earlier that, when the interest rate volumes do come back, it effectively is going to be the volume that would have happened on Liffe with no infrastructure to support it, because it's all going to be moved to our platform.

Sales, sure, we'll have a few sales people, some compliance resources, some market oversight resources. But beyond that, I don't need more accounting people to do it or more finance. But we don't need another management team to do it. So it really does – no technology at all – it's flips all into to our.

So not only do we believe that the rates are going to coming back. The integration will be done and the profitability associated with that volume will be terrific. I actually thought it was interesting because to some extent the response was a bit of all of the above. Right, I mean, there are different people in the room that felt like, it is a Liffe opportunity, and I believe that, right.

And around interest rates, we see it in Sterling today, there is some movement and some improving sentiment around the UK economy. And I don't think anybody is sure on any given day whether [indiscernible] (15:21) is going to go left or right and that creates volatility and that helps volumes.

Euribor has definitely been a bit of a struggle and it's because frankly the European interest rates are effectively zero. But when you see [indiscernible] (15:36), you made comments about what he may or may not do, we get some pretty good volume around that volatility. When the ECB did finally take an action, we had some huge days around that.

So again, you've got open interest levels and you've got interest, so that as the volatility returned, as the rates returned, it's definitely a big opportunity. And again it's revenue that's amplified the profit line because we're basically in the process right now, while we wait for the volumes to recover to taking the cost out.

In addition to that, we are not just sitting on those two products. We've launched more European bonds. We've talked pretty openly about the fact that we think there is an opportunity around OTC interest rates. Now again whether or not that opportunity ultimately is OTC rate as they are today or moving over into futures or meaning somewhere in the middle with the swap future type product, I think still a little bit TBD. But we think that there are definitely opportunities.

But [indiscernible] (16:26) away from that on the other two sides of what you saw on those answers, there is definitely growth opportunity in what I'll call the legacy ICE business as well. Brent continues to do well. We've finally made it through the gas oil transition and we expect volumes in that business to recover. Our ag businesses have performed pretty well this year, and open interest level continue to perform well. So the legacy ICE business has a number of growth initiatives – or growth opportunities as we look forward, and again open interest, market [ph] IDE (16:52), all of those things are indicators that it's there.

And then again on the OTC clearing, which was I think the fourth one. They kind of pivot around each other. Look at the CDS business. We started out, the first it was $20 million/$30 million. We grew that to $60 million and kind of held there. We got the U.S. buy-side mandate. It grew, we're on our track right now, I've said to kind of $90 million for this year, that's without European buy-side and that's with a lot of products still to launch. So that's a business that can easily trend over a $100 million for us course over time.

And I've mentioned earlier, we have a very solid interest rate presence in Europe for the first time with the Liffe acquisition, and I think there is an open opportunity for clearing around that. And if you think about the SuperDerivatives and what that brings to the table for us, it speaks directly to that opportunity because what SuperDerivatives has is, it has great OTC pricing data, which allows us to expand more quickly what products we can clear because fundamental to clearing is they have to be able to price the product I clear every single day. If I can't price it, I can't determine what the collateral requirements are, what the risks are. So SuperDerivatives brings us a lot of pricing expertise. They bring a lot of risk management expertise to help us build out our model.

As you put more and more activity into a clearinghouse and if you are a bank and your balance sheet is limited in terms of the capital, you can deploy and the Basel requirements that you're required to hold, you're going to be looking for the most capital efficient solution and that requires you to have very robust risk models because by the way when you go to the regulator and say, I've got a more capital efficient model, what they hear you say is we have less collateral that we're going to hold, and they don't like that answer.

So you have to be able to demonstrate that it's a very robust risk management tool that's capital efficient, but not collateral deficient. And again SuperDerivatives brings us a lot of tools around that. And then, also brings valuation tool, so if you are a customer and you are in a balance sheet constrained world, you got to position in a clearinghouse, you're going to want to know, if I make a trade to try and flatten my book out or if I move left or right, what's that going to do to my collateral requirements and my risk. And again, those are capabilities that we believe SuperDerivatives helps us build out because fundamentally we think there has been a fundamental shift in the value in the business we operate towards clearing and data.

And you've seen us moving in that direction over the past few years and that's where we see the greatest opportunity as we move forward. That's where we're continuing to invest and again, I think, that's going to be a big enabler of our future growth.

Kenneth W. Hill
Barclays Capital, Inc.
Q

Okay. I guess, you touched on this a little bit in the comments as far as the Liffe opportunity as well as the kind of matching that up with the interest rate clearing longer-term. How are you guys thinking about that from a regulatory standpoint? How that's going to drive some activity and what are your customers telling you right now as you maybe look to address that longer term.

Kenneth W. Hill
Barclays Capital, Inc.
Q

On the broader regulatory complex.

Scott A. Hill
Chief Financial Officer & Senior Vice President
A

Yeah. Again, it's not a difficult [indiscernible] (19:51). The challenging conversation with the regulators is around what are the collateral levels that you hold, right, because you've got competing forces, right. You've got the Basel requirement and all these other requirements on the banks that are shrinking balance sheets and so they're looking to put less collateral up against the trading books.

The regulator is saying, look we want to make sure [ph] belts and suspenders (20:15), you've got sufficient – and by the way, that's what we want too, right, because we've got money that sits up in front of the guarantee fund. The last thing we want to find out is we've got a deficient set of collateral that we've put against the position, and it eats into the money that we've put to the guarantee. That's why we were one of the first clearinghouses, if not, the first to put our money in the guarantee fund. That's an incentive for us to make sure we get it right.

And so with the regulators, the conversation really is around being able to demonstrate that the capital efficient solution that you've delivered, which affectively is looking at what's the correlation among the different products that you clear, recognizes that correlation doesn't always hold, sometimes it breaks. And so does your model consider that, do your collateral requirements consider that, does your risk management policy consider that?

And so that's the real challenge right now. You can demonstrate you've got a really good risk model and really good assumptions, but you then have to show in a back test when the North American winter that we had this past year blows through power, would you've had enough money? When the 2008/2009 crisis repeats, would you've had enough money? When the Iraq War hits oil, did you – so it's all these back tests you've got to demonstrate that the model works and that's the challenge of those discussions.

Kenneth W. Hill
Barclays Capital, Inc.
Q

Okay. Wanted to stop, pause and see if anybody from the audience had anything on the revenue side. We'll jump into the expenses and capital a little bit later, but wanted to see if there are any questions on the – kind of opportunity set that anybody had out there. Quite group. You've done a good job covering a lot of it.

Scott A. Hill
Chief Financial Officer & Senior Vice President

A

We'll go with that.

Kenneth W. Hill
Barclays Capital, Inc.

Q

Yeah. Okay. I guess I just did have one on kind of on the energy front. We've continued to see a lot of geopolitical activity out there, energy volumes through the first part of the year weren't all that great. What are you hearing from customers? I guess how is that dialog kind of changed over the past even three months and even more recently as Brent prices is kind of come in a little bit and just thinking about the overall market as we move forward into the back half of the – latter part of this year?

Scott A. Hill
Chief Financial Officer & Senior Vice President

A

Yes. So again, the thing that I look at a lot is open interest. An open interest levels for Brent, we've hit record levels over the course of this year. The conversations with customers are not dissimilar when prices are settling around a $100 or little less than $100. There is no question that as prices go lower, it impacts a little bit of trading volumes, but again and these are commercial customers that are trying to manage price risk out in the time. And that's why the open interest levels are significant, that's why when you do see the moments of volatility, volumes [indiscernible] (22:41) pretty good and even in a relatively mild volatility environment. As I mentioned, June-July volumes were pretty good. And overall on a year-to-date basis, the volumes are okay in oil.

So the conversations haven't shifted lot on the oil side. I do think one of the things that is broader than just oil, but it's commodities generally. There is no question that some of the banks are making the decision to kind of exit the physical commodity part of the trading and risk hedging. The good news though is, we're seeing other companies, [indiscernible] (23:16) companies like that that are set – Archer Daniel – that will step in and pick up those physical commodities. And so, as opposed to where a bank maybe was trading a speculative position, if they decide not to do that anymore, there is no real need for anybody to pick it up.

From a fiscal commodity standpoint, there is real oil in the world. There is real metal in the world. There is real grain in the world. And to the extent that the banks don't own that real physical commodity, somebody is going to and they're going to need to manage that hedge risk – so – or manage the risk associated with that.

I do think and it's hard to quantify that there has been a bit of an impact in volumes, as we gone through the year with that transition. But I think over the long-term, the trading appetite around the physical commodity is only going to continue to grow.

Kenneth W. Hill
Barclays Capital, Inc.

Q

Okay. So unless anybody had anything else on the revenue front, I wanted to jump to expenses here. So I want to start with another audience response question. How confident are you that ICE can achieve its targeted $550 million expense synergies in the timeline provided?

So one being not likely, somewhat likely, very likely, and very likely and expecting more? [indiscernible] (24:19) I think the last year, people came in well above expectations which was right because you guys have sense up from the $500 million or $550 million so. So bullish group out there, 46% saying very likely, and 41% saying above.

Scott A. Hill
Chief Financial Officer & Senior Vice President

A

Yes.

Kenneth W. Hill
Barclays Capital, Inc.

Q

If you wanted to touch on synergies?

Scott A. Hill
Chief Financial Officer & Senior Vice President

A

Yes, I sometimes wonder if we're a little too transparent for our own good, right. When we announced the deal, we were pretty clear about what synergies we were going to deliver. I put out a chart on fourth quarter earnings that showed how margins would expand assuming we got those synergies out. By the way, we're tracking right to what that chart suggested we would do in both synergies and margin.

In the first half of the year, we said this year we'd be 48, 49. I think we're 50 in the first half of the year in terms of margins. We more recently put out a chart that effectively rolled out, hey, we've got $240 million in our current expense guidance. And if you look at what you should expect from us in 2014 first quarter run rate to get to that $350 million, we showed you that number.

So what we're trying to do is to be transparent on, this is what you should expect, and then we go and execute on what we say we've done. It's hard to control the number four response that you expect it to increase. I'll read that as, you expect us to continue to be good cost managers, because we always have been and we will be. It's built into that expectation that we're going to every other quarter give you an update on the new synergy number, that's just not going to happen. We're going to go deliver on these $550 million and then we're going to do just what we've done historically at ICE, which is continue to drive efficiencies and increase margins over the course of the time. But that's not – the $550 million synergy is, what am I going to go get out related to the New York Stock Exchange deal that we did, right?

Kenneth W. Hill
Barclays Capital, Inc.

Q

Right.

Scott A. Hill
Chief Financial Officer & Senior Vice President

A

Even as we've done that, we've continued to manage our – if you will our historic cost base and we're going to continue to do that with the $550 million as well. So the thing I'd encourage people to do, if you are in the very likely and expect the synergy number to increase, we're going to hit the synergy number and then we're going to continue to manage our expenses. And so I feel pretty confident that we will continue to be able to expand our margins and grow our profit.

Kenneth W. Hill
Barclays Capital, Inc.

Q

Okay. Wanted to talk about that second piece there. So over the course – coming out of second quarter earnings, we saw a lot of the other exchanges really lower their cost base into the back half of this year, even had CBOE yesterday talk about even bringing fourth quarter down lower than third quarter despite their volumes are actually picking for them. You guys did lower your full year guidance, but it implies somewhat of an uptick in the third quarter and fourth quarter ...

Scott A. Hill
Chief Financial Officer & Senior Vice President
A

Yes.

Kenneth W. Hill
Barclays Capital, Inc.
Q

...versus where we were in the second quarter. So just kind of wanted to look at that from a couple of angles. One being, what kind of investments are still needed to kind of monetize the products that you still have? And then, I think you've kind of covered the synergy front, but nothing else we can really expect there over the course of this year, as well as it's going to help that number there.

Scott A. Hill
Chief Financial Officer & Senior Vice President
A

Yes. So, I'm at the risk of arguing the question, right? So we've lowered our full-year expense guidance, right? We told – again very transparent, in the first couple of quarters, we had a couple of expense helps, that were lumpy in those quarters. Not uncommon, not things it won't repeat, they're just the timing with earlier in the year, rather than later in the year.

So as I look at it, you go back to where we guided entering the year and where we guided there for the year, it's better and it's improved and that's the way we think about. Yes, I don't look at expense in the first quarter or the third quarter or the fourth quarter and get too excited about one versus the other. I have said that there is an – you should have an expectation that the fourth quarter will be better than the third quarter, simply because, again, we're starting to get towards the end of some of the integration efforts that we've had.

But I feel pretty good about where the expenses have been managed this year. And, again, I look relatively speaking and the easiest way for me to improve my expense guidance is to give you a big number that grows year-to-year and then come back two quarters later and say, hey good news, I'm going to be way under that.

That's not what we did. We came out and said, hey, we're going to take our expenses down and then we came out and said, hey, we're going to take it down even more. And so I feel again very good about where we are from an expense management standpoint. I think we're right on track of where we thought we would be in terms of the synergies. And, again, I go back to what I said earlier, which is we know exactly where the $550 million is going to come from and we know that there is a large expense base that we have to continue to work on outside of that to continue to be more efficient.

Kenneth W. Hill
Barclays Capital, Inc.
Q

And from like a CapEx perspective, anything you'd...?

Scott A. Hill
Chief Financial Officer & Senior Vice President
A

CapEx, this is definitely going to be a peak year of CapEx, right. I mean if you step back and think about all the things we're doing, we're building our new headquarters in Atlanta that will allow us to see more people because, we're effectively bringing a lot of jobs and centralizing them down into Atlanta from an accounting standpoint, a finance standpoint those kind of things.

It's the same thing in New York. We're doing a major refurbishment of 11 Wall, which will allow us, number one, to modernize that building, but also to densify the population, so that with ICE four years or five years ago, we maybe maxed out at on our around 11 leases in New York. We've gotten down to one. And now we kind of expand it back out, and what we want to get down to is one midtown presence, one downtown presence, and then of course our Atlanta, London, Chicago offices.

And so, you see real estate investments this year and we're working on Project Abby to try and consolidate the trading platform at the New York Stock Exchange, a lot of that's happening this year. So there are a lot of things that are – building out the Liffe platform, and putting some trading capability and clearing capability into Basel then. And there are lot of expenses related to, what I'll call the integration of the deal, and that the technology platforms around the deal. So I feel like this is a peak year, and you'll start to see a trend off next year. And then I will anticipate as we get into 2016, an even sharper deceleration, as you go into that.

If you think back to kind of where ICE is historically, we're kind of at $50 million, $60 million. Now, we're – if you take the real estate out, we're kind of 3 plus x that. There is no reason for us to be 3x that number. I don't think it gets back to that low, given the breadth of the company now versus then, but we definitely should see a deceleration in 2015 and certainly into 2016.

Kenneth W. Hill
Barclays Capital, Inc.

Q

Okay. I wanted to see if anybody had anything from an expense management standpoint before we kind of move onto capital. We got one question.

Q

You have been very clear in terms of the synergies from the New York deal, but I guess, I'm just trying to understand. I thought a lot of that was driven by Liffe integration and things related to that, and then a much smaller piece related to the cash equities. So I guess, what I'm trying to understand is, when you look at the acquisitions, how much of the operations have you kind of taken that deep dive into in terms of looking at the expense base and rightsizing that?

Scott A. Hill
Chief Financial Officer & Senior Vice President

A

100% of it. We've gone through every dollar and every person and every function and every job across the NYX and the $550 million reflects actions that we're going to take comprehensively across those businesses. I think it's important, it's not just $50 million that's coming out of the New York Stock Exchange business. You may recall that in the original $500 million, we noted that there was a small amount embedded in there. I'm not sure we ever said the number, but it's kind of the $25 million-ish number that we had embedded in it.

So overall if you step back we've taken out over 40% of the expense base of that company. We spun out Euronext, and so as I step back and look at when we're done with the integration over the course of the next couple of years, right, we will have narrowed it down to a single corporate staff. We'll have the Liffe products on ICE platform. We won't have Euronext, we won't have NYXT.

We'll have the data centers, but we're now more in maintenance mode on those, I mean we're not building $600 million worth of data centers. We happen to own them. But we've written those down to purpose. That was the $50 million of balance sheet synergies that we had at the beginning of this year. And so really the only meaningful expense or resource base that's left is the New York Stock Exchange. Even there though, we're taking the efforts to narrow down the platforms from five different technologies to one.

We're not really touching the dials on the listings business, that business is performing fantastically. As I mentioned, 8% revenue growth, third quarter is going to be at record levels for IPOs. We've got Alibaba on the horizon. So that business is performing great and the more businesses that we get to list, the more interest is in trading stocks, and that's a tide that raises all boats, including ours.

So the short answer is, we've looked comprehensively across the business. The $550 million reflects a significant amount of the expense that we will reduce from that business, and then when we're done with that and along the way, we'll continue to manage our expenses as we always have.

Kenneth W. Hill
Barclays Capital, Inc.

Q

Okay. One more question.

Q

[indiscernible] (33:53) two questions. Just I'll ask the first one and follow-up. So how do you think about SuperDerivatives, which seems like a very sensible acquisition versus buyback? Can you just walk us through kind of how you compare one versus the other in terms of either accretion in ROIC, and if it's ROIC, over what period of time? I know, you haven't given guidance as to what the financial impact...

Scott A. Hill
Chief Financial Officer & Senior Vice President

A

Yeah.

Q

. .. of SuperDerivatives is, but just help us walk through how you compared one versus the other?

Scott A. Hill
Chief Financial Officer & Senior Vice President

A

Yes. So it's a good question. Every deal that we've ever done at ICE, we look at and we take to our board effectively a business model with a cash flow that generates an IRR. And if that IRR is not above the benchmark, we don't do the deal. And so, when I started with the company, our cost to capital was around 12% and that's kind of been the benchmark that we're stuck with even though the cost to capital has drifted now closer to around 8% to 9%.

As we think about it right now, if I wanted to, I could go out and – any deal is accretive in a 0% interest rate world. That's not how we look at it. We look at it as a true cost to capital and it's got to meet those hurdles. I honestly will tell you, ICE, it never crossed my mind, that if I do SuperDerivatives that means that I don't get to buy back stock. And I could decide not to spend CapEx and go buy back stock or to let go 100 people and go buy back stock, but I don't think of it in those terms. We're going to continue to invest in the business?

And again, this may be a place where our transparency hurts us, right. I think the stock is undervalued. I've spent over $400 million this quarter, demonstrating I think the stock is undervalued, but we can't at this moment in time decide to stop investing in the business. And so, SuperDerivatives is a great deal for us. It expands our risk management capabilities. It expands our data. It expands our ability to build tools and to build better risk models and to price more products in our clearinghouse.

And so, that's an investment we're making because it over the long-term is going to generate significant values for our shareholders. And when it does, that's going to take the share price up. And so, the good thing about the cash flow that we've got, right, and it kind of goes back to the chart we showed on our last earnings call is, we are able to do the SuperDerivatives acquisition. We are able to pay a $300 million dividend on an annual basis. We do have now over $600 million left in an authorization for buyback, and left unspoken on the earnings call, but I'll say it out here.

Directly, as we generate the cash over the course of the next 18 months, we're going to put that to the highest use. And right now, at a $190, $188, that's a pretty attractive use for us, but it's not the sole use, right, because we believe in this business, we believe in the growth opportunities, we believe in the clearing the risk management the data space. And you see that in the SuperDerivatives investment we made. I don't know if you've seen it, but at 9 o'clock this morning we announced we were making a majority investment in the Holland Clearing House, which is a continental European clearinghouse, not a material acquisition from a financial standpoint, but a strategically important one, because it puts us on the continent. Those types of investments are absolutely crucial, goes back to the very first question.

I mentioned that, I think if you wait for volumes, you're going to miss the opportunity to own a great stock at a great price. By the same token, if I don't invest in a period where volumes are low just because volume are low, I'm going to miss the opportunity to generate growth for you two years from now, three years from now, or four years from now. In the last chart that I had that showed our profit growing every year and our revenue growing every year, it did that because we were consistently investing regardless of the cycle. So it's not a choice, it's not a – I did that, so I didn't get to do that. We're balancing investments across all the spaces dividend, buyback, acquisition, CapEx, investment in our labor force, it's all of that. Because again, we believe in this business, we are not ready to capitulate and say, all we can do is generating cash and hand it back to you.

Kenneth W. Hill
Barclays Capital, Inc.
Q

I think that's a great segue to the last kind of two questions we have here for the audience. The first one is on, you did the $350 million announced. You've done a little bit more since then. What are expectations through the rest – through the end of 2015 from a stock repurchase standpoint? I mean, $700 million being the midpoint there? So I think 23% kind of hitting $700 million to $709 million, and obviously 23% looking for over a $1 billion there as well. So maybe just hit one more and then you can...

Scott A. Hill
Chief Financial Officer & Senior Vice President
A

All I can tell you now is what I mentioned earlier. So we've got, we have the $700 million now. It's over $600 million because like you said we have now bought back over $400 million in the quarter. That's the authorization that we have in place now. We have – obviously we go to the board to get the dividend authorized each quarter, but assuming the $300 million annual dividend, we've got that in play.

And the only thing I can tell you beyond that is, I mentioned on the call that was kind of a 60% to 70% payout, which implies that there is another 30% to 40% of cash that's unaccounted for, that we will use to invest in the business that we may use to buyback more shares. We are going to put that cash to the highest use. I think one of the most important thing that happened with the New York Stock Exchange deal is that, it was the moment in time where we moved into, what I'll call a more matured debt structure by going into the bond market.

Historically, we had to sit on cash a little bit because we were dependent on the bank market. The bank market could get choppy, and I lived in fear of Jeff coming with one of his great ideas and me saying, I don't know how to finance that. And so, I had to build up cash. I don't have to do that now.

Now obviously in tougher markets, the cost of the bond market is going to be more or less, but it doesn't never shut.

And so, I've got the flexibility that if we need to do something strategically, we can move to that market. We've said one and a half times is our target. We've said we'll move around that. We've been open with the ratings agencies that will move around that strategically, depending on timing of deals, capital returns, all of those types of things. But I don't have to sit on a cash balance the way we did in the past. We are able to maneuver more flexibly. And we are able to therefore put the cash to work, again through either capital returns or M&A or CapEx or the other things.

So again, the unspoken sentence on the earnings call that I'll say again is, we recognized that it wasn't a 100% payout. We're committed to making sure that we put that cash to the highest use for our shareholders.

Kenneth W. Hill
Barclays Capital, Inc.
Q

Okay. Then I want to squeeze in one more here. So it's kind of on that same vein. If you don't [ph] happen to (40:53) repurchase, where would you guys rather see the company spend its money, acquisitions, reinvesting in the business, or dividend? Okay, so fairly balanced across the group. But reinvesting in the business, so kind of [indiscernible] (41:19).

Scott A. Hill
Chief Financial Officer & Senior Vice President
A

Yes to me, one and two kind of say invest in the business, right? And I think that's what you should anticipate. As we're going to look at balancing, reinvesting in our business with share buyback. So I think that's the right way to think about our capital deployment.

Kenneth W. Hill
Barclays Capital, Inc.

Okay, with that we'll leave.

Scott A. Hill
Chief Financial Officer & Senior Vice President

Okay. Super. Thanks very much Ken. I appreciate it. Thanks everybody.