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Intercontinental Exchange, Inc. (ICE)

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MANAGEMENT DISCUSSION SECTION

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Good morning, everyone. My name is Ken Worthington. I'm the analyst covering exchanges at JPMorgan. I want to introduce Scott Hill of ICE, the Intercontinental Exchange. Scott has been CFO of ICE since 2007. He's responsible for ICE's accounting and financial functions. He's also been instrumental in the consolidation and efficiency generation derived from many of the deals that ICE has executed on.

I've been in financial services for about 20 years, covered basically all different sectors of financial services. ICE has the best management team of any of the companies I've ever covered. So, it's my pleasure and honor to introduce the genius behind ICE's operational success. I'll turn it over to Scott.

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

So, are these mic – yeah, it sounds like it's on. Okay, thank you. That's an unbelievably kind introduction. As Ken said, I'm the CFO at Intercontinental Exchange. Actually, the brilliance behind our company are the two guys that founded it, Jeff Sprecher, who's still our CEO; and Chuck Vice, who's our President and Chief Operating Officer. The team and the strength of the management team has certainly expanded over time. But it really is Jeff's vision that originally led to the formation of ICE and has led us to where we are today, a company in which he invested $1 back in 1995 that closed yesterday at a little above $33 billion.

So, it's a good story. And I'll start today quickly with the Safe Harbor statement, I'll point out. But then move forward to – we have long considered ourselves a growth company and have made a commitment to our shareholders, to our board and to our employees that we are going to generate growth every single year and that we will generate strong returns on investment for our investors. And those are metrics that we feature in each of our quarterly earnings calls, and I think that's unique in our space. But we fundamentally believe that the recognition of the management team really relates to how we execute and how we generate returns for investors.

And what you see on this slide is that we have consistently grown our business. ICE went public in the year 2006. Every single year since then, we've grown on average 20% for earnings. And as you can see – and I think this is the most important point. I joke sometimes that I can give you a strategy that will grow every other year pretty easily. But a strategy where every dark blue bar on the right is taller than the one on its left, it's pretty difficult to do over two years, five years. We've done it every year since we've been a public company. And as you can see on the light blue bar, which is year-to-date, we're well on our way to growing again this year with earnings up 16% on a year-to-date basis in 2016.

In addition to this, and I'll talk a little bit more about it later, we have generated strong returns on invested capital that are above our cost of capital and have consistently, post deals that we've done, ramped back up to positive levels. We, in addition to the growth in EPS, have generated over $1.5 billion of cash this year. We did acquire a company called Interactive Data at the end of last year and levered up a bit. We closed the year at 2.8 times, and only nine months post the closing of that deal, our leverage is already back to 2.3 times. And that allowed us not only to continue to pay our dividend, which is up 28% this year, but also to re-implement share repurchases in the fourth quarter.

Importantly though – Ken has known our company for a long time. The company he knew, and then I joined nine-plus years ago, and the company we are today has changed pretty significantly. We still operate one of the most global and diversified exchanges in the world. We're trading in energy products and commodities products and interest rates and financial indices. But in addition to that, as you can see on the right-hand side of this slide, we have significantly expanded our presence in data. When I joined nine years ago, data represented about 12% to14% of our revenues. Today, as you can see, our recurring revenues are greater than 50% and data alone is 45%.

And importantly, and I'll show you the revenue numbers in a little bit, the percentage of data hasn't increased at the expense of trading. That business has continued to grow and expand its margins. But through some acquisition and through organic growth, we've been able to grow our data business. And that gives us a much more stable set of financials and much more stable set of cash flow. It allowed us to introduce the dividend three years ago, and again, to grow it as we've grown, and has allowed us to repurchase shares. In 2014 and 2015, each of those years, we've returned almost $1 billion of capital.

So, we feel like where we're positioned today is that we operate – and I'll show you some numbers to back it up, we operate the strongest trading franchise in the world. And then, if you look on the data side, by some measures, we're the third largest data company in the world. But if you look at just proprietary information, we're the largest company in the world. And I'll show you the operating margins and growth dynamics that go along with that strategically diversified business.

So, let me just again – and I touched on some of this, but give you a few more facts and figures. So, we run 11 exchanges around the world. Five of those are cash equities and options exchanges here in New York. But we also operate a commodities exchange in Canada. We operate a commodities exchange in Europe, in London. We run an exchange on the Continent in the Netherlands, and we also run an exchange in Singapore.

So, we've got a very globally diversified footprint. We also operate six central clearing counterparties, which is a critically important part of the recent move from financial regulation to move more business into clearing, particularly in the futures and the over-the-counter markets. And again, we run a globally diverse set of clearing houses. We run two in the U.S., we've got one in Canada, one on the Continental Europe, one in the UK, and one in Singapore.

Importantly, though, each of those exchanges and each of those clearing houses run on a single technology platform. So, we focus very much on generating efficiency and it helps with security, disaster recovery, business continuity, all of those things are enabled by a great technology foundation. I would argue, to a large extent, that we are a technology company at heart, but with much better operating margin.

As I mentioned earlier, our global data services business, the footprint there has expanded significantly. We expect to grow our data business this year in the 6% to 7% range, and that's despite a one-point to two-point hurt from currency. We've already said with three months still to go in the year and the integration of our sales force really only a couple of months behind us, that we'll at least replicate that growth as we move into next year, and again that's despite a little headwind from currency and it does include a tailwind from a business that we recently acquired.

But we feel very confident about the business. In a space where many of the data companies are guiding to 2%, 3%, maybe 4% revenue growth, we're going to post a 6% to 7% this year. We're going to post at least a 6% to 7% again next year. So, we feel very good about the data franchise that we've developed.

Diving a little bit deeper on slide five into the exchanges and clearing houses, I mentioned earlier that really the drivers of our business are global in nature. And so, if you think about the commodities that trade on our platform, it's global oil products, like the Brent benchmark product, which is the benchmark for roughly 70% of the world's oil pricing.

We also trade WTI and many other oil derivative products on our exchange. Give or take a little bit when you look at just Brent and WTI, we've historically been around 50% market share. Now, we're kind of in the mid-40s. A couple of years ago, it's the low-50s.

More importantly, though, open interest, which is really the key indication of where the commercial participation is, our share is greater than 50%. And if you lay on top of that all those other derivative oil products, we are the strongest player in the global oil space. And that's a market that's grown consistently. Our Brent contract volumes have grown for 19 consecutive years.

We're also strong in global agricultural markets. The global sugar contract trades on our exchange. It's a U.S. cotton contract that it largely is the basis for global cotton prices. Many of you remember the New York Board of Trade. That's the business on which those contracts trade. Also, the business that we bought where we acquired our first clearing house.

In addition to those commodity products, which are driven by emerging markets and interest rate volatility because that drives price movement, driven by the risk management needs of companies like Delta who need to figure out how to price a ticket. And in order to do that, they have to know what the price of oil is going to be in three months or six months or 12 months. Very strong commercial participation that drives those markets.

We're also in the interest rate market. When we bought the New York Stock Exchange back in 2013, we also acquired the Liffe business, which was the interest rate European and sterling interest rate products. Over the three years subsequent to that, the European interest rates have been a bit volatile, trading around at 0% interest rate [ph] in an economy that aren't (09:51) getting a lot better, it tends to be a little less interesting. But when the bank is talking about, the ECB is talking about what bond purchases they'll do or what they may do with interest rates, we've seen some growth in that product.

But where we really are seeing good growth is on the sterling product. Not dissimilar than one of our competitors, CME, that offers the U.S. interest rate, as the U.S. economy did better, those volumes did better. Similarly as the UK market was doing better, the UK rates did better. And so, just to give you an idea when we bought the Liffe business, the European rates were about two times the size of sterling, and that's completely now flipped on its head. And then, obviously, as you might expect with the Brexit vote and the volatility around that, the uncertainty going forward on what Brexit will mean, we've continued to see strong trading in those interest rate products which really to a large extent are driven by Central Bank's action and the economy.

We have a strong equity index business. The two largest contracts there are the FTSE contract which trades as you would expect in Europe, but then also, the MSCI contract and that's a partnership that we have with MSCI. The most successful one that we've had thus far has been the MSCI Emerging Markets. And it's reflective of a trend that I'll come back to later in that markets more and more are looking for more of a passive investment, I'm not going to try and pick the 20 stocks in the emerging markets that I want to follow. I'm going to pick an index that tracks that market and that index a couple of years ago with really no volume. It's now our largest in terms of driving volumes and revenue, so an important product for us.

And then, the last but certainly not least, [ph] we do (11:28) on the New York Stock Exchange. The largest cash equities exchange in the world, by many measures the most significant listings franchise in the world, and I think inarguably, the greatest brand in the cash equities space in the world.

I mentioned the six clearing houses that we had. We started the first CDS clearing house back in 2009 or around the financial crisis. We now clear over 600 CDS instruments. We've launched hundreds of new products in clearing from an energy standpoint and kind of at the bottom of the chart, you see how it all nets down to – our year-to-date revenues are up 4%. Our commodities revenues are up 7%. And we've had strong performance really across the board with year-to-date volumes of 8%.

Our Data Services business is on the next slide, and again, I'll break that down into three biggest pieces and I'll start in the middle. The Exchange Data, I mentioned earlier, when I started, data was about 12% to 14% of our revenue. And that really was the Exchange Data, which is the [ph] exhaust off (12:31) the trading and clearing, every time somebody trades at a new piece of information, that's a business that has grown consistently, as we've been able to capture more value by adding more and more content to our data packages, as we've seen significant customer growth. In fact, each year annually, we've seen customer growth, and as you can see, this [ph] year (12:49) on a year-to-date basis, that business has grown 14%.

The Pricing and Analytics business, which is driven largely by the Interactive Data acquisition, although I will note this growth number is on a pro forma basis, has grown 4% this year, and that's really about the independent pricing and valuation. And that's being driven by the trends that boards, compliance departments, regulators, they are looking for external sources to tell them what is best execution, what is the fair price, what is the value of that portfolio. And those external demands are really driving the need for information, and that's hearing the customers were focused on that is really what led us to the IDC acquisition.

[ph] And then, (13:33) the last category here is Desktop and Connectivity, which is up 3%. And the way we think about that is that's really the delivery mechanism for the data. And so, whether a customer wants a direct feed, we can – we've got a network that we operate that can hook up to that network, they can take the data directly through that feed and then do what they want to with it internally, or if they want a desktop, which includes built-in analytics, et cetera, we have a number of desktops, we have ICE which we've had for forever, a number of desktops we acquired with IDC, a number with SuperDerivatives.

And ultimately, our strategy is to combine all those into a single desktop, again, with the strategy not being about the desktop itself, but about more efficiently allowing customers to consume more of our data, because, again, our focus is not on the redistribution of other people's data, it's on how to get more people to consume the information, the data that we're selling.

So, it all kind of comes together on what we think is this virtuous cycle that you see here on slide 7. And, again, really, if you think about it, each of the parts of the business [ph] beat (14:42) the other. So, trading and clearing generates data. That data informs the trading and the risk management that goes on. And as I mentioned on the right side, a number of these secular trends, we really are seeing a particular push whether it's law that says you will move more onto transparent trading platforms, or you will move more into clearing houses, or compliance department and board saying, I want a third party mark on that portfolio, I want an indication of best execution, all of those factors are driving demand across the board for the services that we provide, whether it be trading, the risk management provided by clearing services, or the consumption of more data [ph] for (15:24) multiple purposes.

[ph] Talk (15:27) quickly on slide 8 which shows you the consistency of the revenue growth that we've driven over time, noting again on the far right, the year to date September revenues on a pro forma basis are up 4% on a year over year basis. Our revenues have grown tenfold over the last decade, it has doubled, and earnings, it actually tripled in the past three years.

I mentioned earlier that our year-to-date volumes are up 8%. Our October volumes alone were actually up 20%. And, as I mentioned, I think the revenue trends are only likely to continue because of the fundamental drivers we have in each segment of our business.

And then, I'll close the less interesting prepared remarks, and we can move to Q&A. On this last slide and, again, what I'll note starting on the upper left and then moving clockwise, revenues, operating profit, earnings per share and operating cash flow, with one exception on operating cash flow where we had a disconnect [ph] in (16:31) timing payments.

Every one of the dark blue bars on the right is bigger than the dark blue bars on the left, we grow revenues, we grow profits, we grow earnings, and we generate a tremendous amount of cash that we have said to our investors we've got our dividend, we're committed to grow it as we grow [ph] it. (16:42) We've restarted our share repurchases. And our intent is to continue to increase the capital returns to our shareholders even while we continue to make the strategic investments that allow us to continue to make each of the dark blue bars on the right bigger than the one on the left.

So, I'll pause there and leave that chart up. And maybe, I'll sit down next to Ken and take questions.

QUESTION AND ANSWER SECTION

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Great. Do we have questions? Great. I'll kick off. Data seems to be getting revalued upwards by the exchanges and also the investment community more broadly. Can you talk about more in-depth about how and why the consumption of exchange data, bond data, how that's changing and how ICE is adapting and benefiting from this evolution in data?

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

A

Yes. It's a good question, Ken. And, again, I think it goes back to the fundamentals of – as people are trying to do more risk management and hedge the exposure that they have with, the fundamental ability to do that is based on what information do you have. And so, if you're an oil trader and again, I'll just, I'll use [ph] Delta (17:59) as the example and you're trying to lock in oil prices six months out, 12 months out. You have to have information to tell you where the market is likely to go. What are the dynamics that are going to drive it? What's happening in the shale markets? What's going on in the current – in the stock markets? What's happening in the European market? Which is the Brent contract that's delivered in the North Sea? What's going on in Cushing, Oklahoma with the WTI contract?

All of that information is necessary for you to make adjustment as the trader for when to put a position on, when to manage around that position, when to take a position off. And I think importantly, a lot of that was done by instinct in the past. But now, boards and compliance departments and CFOs are really looking to say, I need to know what informed that trade. Why is that position on? What is the risk that it's hedging? What is the market insight that led you to that?

And so, having the – that's why we see growth in the exchange data space, because you're seeing not just the front office that needs it, but the middle office and the back offices also need that information in order to put position on, to mark the position to market and to evaluate the actual efficacy of the trading. And then you get to the IDC business and the bond pricing, big thing there is that the bond market is, I'm sure many of you know, is not particularly liquid. In a lot of cases, the banks are shrinking the balance sheet that they have and the bonds they're able to sell. And so, trying to figure out where a bond should price, what you should pay for a bond or what you should receive for a bond, is a bit difficult when the bond hasn't traded in three weeks.

We've developed a product that's called continuous [ph] evaluated (19:43) pricing, which is predictive of where a bond that hadn't traded for three weeks is likely to trade next. And we look at similar bonds with similar characteristics and similar industries and we back-tested it and that market has shown to be very accurate.

And so, and all of a sudden, [ph] I can help for (20:00) somebody who is managing a portfolio of bonds that doesn't have an easy liquid place to go, trade them, because, as you know, the bond market doesn't trade liquid like a number of the other markets. I can now use this continuous [ph] evaluated (20:12) pricing model and say, you know what, this is where that bond should trade. And so, if I'm going to make a trade, I want to make it around that [ph] thought. (20:17)

Similarly, if I'm a trader and I need to demonstrate to my compliance department or to the head of my department that I'm getting best execution, we've developed a product now that will tell you what that is. And so, we look across the market of all the bonds we price and we can tell a trader, for that [ph] name, (20:34) here is the price that you should have gotten or this is the bound of ranges and if you're in that range, you got best execution. And, again, so it's that regulatory push to use more of the data for the [ph] mark. It's so (20:48) for auditors that are coming in and saying, I want to know [ph] if you (20:50) marked your balance sheet, who validated that, a number of secular trends that are really pushing the need to consume more data.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

So, one of the trends that we see, I cover asset managers as well, is this migration to packaged products in ETFs. As you think about the fixed income business, the trend in fixed income is a little bit behind. It seems to be accelerating sort of this migration from OTC trading to listed trading. As fixed income ETFs start to pick up, how does that impact ICE both on the exchange side, but also on the data side?

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

A

Yeah. So, I'll start on the data side because I think we have a very clear vision of how it will change. I think that the trading side, it will depend on how the market continues to evolve. I think you're right directionally where it's headed, but it'll depend on the rate and pace.

From a data standpoint, the importance of the shift to the more passive investing that's indexed to [ph] on the (21:52) ETF is really how is that index constructed. And that depends on how are the prices of the instruments that make up that index constructed. And we are at the place where fixed income prices are determined. We have the largest share of that bond pricing market. And so, what people are looking for are indices that give them as little tracking error as possible. And so, the value we bring is, we have the pricing analytics and technology capabilities that allow us to generate the least tracking error that can exist for those indices.

And so, over time, what we think we can do is either support indices who will consume our bond prices to establish their index against which funds can invest and track. And then, we have the opportunity to sell the underlying data for that index, or we can establish the indexes ourselves in working, for example, with a partner like BlackRock that we announced earlier this year where they wanted to establish [ph] their (22:55) new indices, they came to us, and we've constructed a partnership to help develop those indices.

But again, the importance of the passive – and it was a [ph] trend (23:03) I didn't mention, so I appreciate you bringing it up – the passive investment looking to ETFs, looking to indices for investments really fundamentally depends on the underlying components of that index and that's where we think we have a strong competitive edge.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Great. Since we've had a new President announced recently, the Trump transition team has suggested the rolling back of various pieces of financial regulation. What are the changes that could be most beneficial for ICE?

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

A

So, over the decade, the way that we've been successful and again, if you go back, when Jeff started the company, he wasn't looking to start a trading company, he was looking for a way to buy and sell power. He was a power plant developer. And so, what he discovered was, I need a way to more efficiently buy and sell. And so, that is the mantra we get every single day at ICE, is what do we need to do to make the markets work better for customers. And so, ultimately, in our view, you need rational regulations in order to run an efficient market. The regulation is appropriate, we have compliance, we do market supervision, et cetera.

We believe that clearing is a more efficient means of risk mitigation. And so, even without the regulation, but pre-Dodd-Frank, CDS moved into clearing and a lot of businesses were moving into clearing. I would argue Dodd-Frank and the sister-law MiFID – or brother-law, however, MiFID in Europe are doing the same thing, which is largely validating the business model we built, which is do more in transparent exchanges, do more in clearing houses. But again, those laws didn't start the trend. They accelerated them a little bit. And I don't think that changes.

And so, regardless of what elements of Dodd-Frank – which by the way is a very broad law and we're impacted by a relatively narrow part of it. Regardless of how that changes, we think the trends of more transparent trading, more clearing will continue. I will tell you that we're big fans of efficient markets, and over-regulation tends to hurt markets. And so, there are aspects that we think could be rolled back, and I'm just not going to pick which parts, but that can help make markets more efficient. And a lot of that revolves around not so much Dodd-Frank, but the capital rules that some of the firms are dealing with.

So, I don't know that [indiscernible] (25:31) necessarily and rolling back Dodd-Frank can affect that. But if you start the dialogue that looks at what's making markets inefficient, I think looking at the capital rules would be a really good place to start. And I'm hoping some of that happens. But over time, we look to make markets more efficient. And so, as markets have changed, whether due to regulation or – I didn't really touch on your question earlier, as the bond market evolves to potentially a more liquid trading platform, those are the kind of trends we look to serve with the trading and clearing and data footprint that we've got.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC Q

Great. Let's try the audience again. Any questions?

Q

[Inaudible] (26:08-26:18) industry-wide, you see some of your competitors have seen, sequentially or year-over-year, a decline in terms of pricing?

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC Q

Can you repeat the question?

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

Yeah. So, again – and if I don't get it right, tell me. But generally speaking, the question was, talk a little bit about pricing and trends you've seen, and there was a reference to other competitors, who've seen some downward pressure on pricing. Is that fair? Okay. So, generally – and again, I'm going to split it into two pieces. I'm going to talk about the trading and clearing part of the business and then I'll talk about the data business. The trading and clearing part of the business largely has been a business that has had very stable prices.

And so, if you look over time, we've – I think in the nine years I've been here, we've had three meaningful price increases. One was when we bought the New York Board of Trade and the floor traders told us we needed to charge more for electronic trading and we happily agreed with that. The second was when we took over clearing in London and we're able to capture the full value of the trading and the clearing. And then more recently, maybe three years ago, we increased prices a little bit in some of our ag products to match more of what we were seeing in the market.

But even if you net all of that out – and I suspect, Ken, you've got all the numbers as well, you look at our rate per contract trends, they're pretty stable. They'll dip a little bit in really volatile periods, because you have more market makers that are participating. They'll actually rise a little bit in less volatile periods, because the commercial participation tends to pay the full rate. But generally speaking, I would characterize our pricing trends over the past decade as steady in the trading business, and I wouldn't expect that to change moving forward.

The data business, I think, again, you have to segment out a little bit. We don't think about the pricing on data as historically, particularly in exchange data, which is where I'll start, as how much more do we get to charge this year or 18 months from now for the same data. However, what we have shown the ability to do is as we include more data in the packages we sell or we're able to deliver those packages more efficiently or a combination of each, we've been able to capture some of that value. And so, we talked a lot about this on our last earnings call.

If you look – and again, Ken will have seen this in tracking us. About every 12 months to 18 months, we've shown an ability to increase prices around particularly our commodities trading data. And again, that's not because we're going to [ph] Dan (28:47) and saying, hey [ph] Dan (28:48), good news, the same information you got last year now cost you 10% more. It's, hey [ph] Dan (28:52), good news, I'm delivering you a lot more information and the price is only going to go up a little bit. And so, Jeff mentioned on our earnings call that if you look at actually the price per element or a data component inside the packages, that's actually trended down.

And we use the analogy, if you think that 10 years ago, you look at your cable bill versus what you pay now, you may pay a little bit more, but you probably get 20 times the channels. We'll leave it to you whether or not any of those additional channels actually are content [ph] rich to them (29:22). But our data has typically had content that people are interested in. And so, we've had the ability, as we've provided more value, to capture some of that value in our pricing in the exchange data space. On the connectivity piece, it tends to be more the nature of the network, is it a more efficient network, are you – do you have a 4-gig port or a 10-gig port. So, as you would expect there, it tends to be the size or the capacity that you're consuming, but otherwise price is relatively stable.

And then, on the pricing and valuation business, which is the historical – again, largely the Interactive Data business, that's a combination of elements. I do think there has been an element in that business where they've been able to capture kind of a 2% to 3%, almost a [ph] CPI-type (30:09) factor on the prices that they charge, and that notwithstanding have retained about 95% to 96% of their customers that represent about 98% of their revenues. But then, in addition to that, we're looking at the ability to price for the new products that I've talked about, so [ph] while continuing (30:26) with the value of the product, et cetera.

And so, our view is that our pricing has never really been about capturing more value on the same product. It's been about innovating for customers and then capturing some of the value from the incremental innovation that we've provided. And again, a definite contributor to that 10-year record of revenue growth has definitely been an ability to capture more value as we've grown the data business. Yes?

Q

Are you concerned about the fact that all the exchanges seem to think that their business – data businesses are going to grow at the same rate, and ultimately, it's sort of like putting excess capacity in a marketplace that pricing could eventually go under pressure? Why is ICE special when everybody [indiscernible] (31:13)?

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

A

That's a great question, right. And we're special because of the nature of the proprietary data that we sell, right. So, if you look at the – if you want to know sugar information, it comes off of our exchange. If you want to know U.S. cotton information, it's off our exchange. If you want to know Brent information, it comes off our exchange. If you want to know all the oil derivative products information that I talked about, it comes from our exchange. If you want to know bond prices, that is Interactive Data. If you want good FX prices, we've got SuperDerivatives offerings that we can bring in.

So, it's the point I made earlier of we're not looking to increase prices because there is a demand for more data generally. We're looking at an ability to grow the business because there is demand for the proprietary information that we create every single day.

And so, what I think makes us unique versus a lot of the other data companies is the proprietary nature of what we do. There aren't a lot of places you can go to get the bond pricing information, there are no places you can go to get [ph] the Brent (32:17), the bond pricing data that we offer at IDC. There is no place where you can go to get the Brent pricing information that comes from – we effectively have 98% of the Brent trading volumes on our platform. So, it's the unique nature of the proprietary information that we have.

And I think, again, I would encourage you to look at our business really in the two pieces, right? One is the trading and clearing segment. One is the data segment. And we break that out in our financial statements and for the first time in our earnings we gave a little bit more in-depth view also to the margins.

One of the reasons why not only can we grow faster than the other data companies in this space, but if you look our operating margins of 51% on a year-to-date basis and most data companies tend to be in the high 30s to low 40s, right? And that's with still over $100 million of synergies to go next year and growth of at least 6% to 7%. And again, because of the nature of that proprietary data, the incremental margins on each dollar of revenue growth are really high. If I sell [ph] Dan (33:19) a bond and the next day [ph] Tim (33:21) buys that same bond, the incremental margin on the sale of that bond is very high.

This is not an information services where I've got to go out and do a customized deployment or a software install. This is – we've got a process to discover prices every single day. And the more people that need that price information and I've given you a lot of the secular drivers why there are more people who want more of that information, the incremental margins are really high. And so, I feel like our ability to grow faster is the nature of the proprietary data. The incremental margins are reflective of that proprietary data. And the absolute margins being the best in breed in the industry are reflective of that as well. Yeah.

Q

[inaudible] (34:02) round out your data, data capacity with non-transactional information?

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

A

Okay. It's a good question. Yeah. So, the first question and I'm going to flip back because I think the first part of the question was largely, if you look at this chart, I show a 53% recurring revenue, 44% data, and the question I think, well, do I have a target? So I want 44% to go to 48% or 42%, et cetera, we don't. What we believe is that we position all of our businesses in areas where we can get growth. And so, what I actually – what our strategic intent is to grow each of the businesses, some years data maybe the faster grower, some years trading and clearing maybe the faster grower, but over two, three, five years, I'm actually hopeful that the mix doesn't change a tremendous amount because that will mean each of our businesses has grown well. And that's why I made the point earlier that trading and – the data business hasn't become a large portion because the other business has suffered. [ph] It's come (35:15) because we've made investments and we've grown that part of the business.

And so, we feel good about where we positioned each of the business. Again, don't get me wrong, it could easily be that next year data is 45% or 46% or again, it could be 42%, 43%, but there's not a target. The target is to position ourselves in trading and clearing asset classes that have growth drivers and in data, proprietary data bases that also have growth drivers. I'm sorry. The second part?

Q

[inaudible] (35:45).

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

A

So, again, we think we do better where the data is largely driven by a transaction, a price creation because that creates the interesting proprietary content. We absolutely made, particularly in our desktop strategy, think about supplementing that with other non-transactional information that might inform a trade or help a back office over time.

I do think this is a general reaction to your question, we have been active in the M&A space, we've done over 20 deals in the nine years that I've been in the job. I think we'll continue to be active in the M&A space. And I think as you saw with the Securities Evaluations and Credit business that we recently bought from S&P, the data space is, whether transactional or non-transactional, is one where we think we can really invest and generate strong returns.

The fundamental nature of the financial success of the company really has related to, we've built strong networks and then we've driven more content through those networks. So, we've built a great exchange that started off, as I mentioned, as a way for Jeff to buy and sell his power, it quickly went from power and U.S. nat gas to power, U.S. gas and oil and expanded there. And then, we ran ags through it. And then, we ran interest rates through it, but not a lot of incremental cost to do that because we have the exchange and we have the clearing house infrastructure.

We view data the same way. We now have this amazing network of sales teams and customers that consume bond information, commodity information, interest rate information, all of this information from us. And so, we do look for opportunities. What's more content that we can drive through that network because, again, if we can acquire a content, create or acquire content that we're able to drive through that same fixed cost structure that also enables margins to continue to expand. Yeah.

Q

Can you just help someone that's less familiar with the company understand, [ph] so for the (38:00) transaction and clearing segment of your business, if you think about it, ex the market impact, the volatility, are there sort of company-initiated drivers that we should be thinking of that [ph] would give parts of it (38:15) some kind of upward tendency relative to other parts of the business, some products where you're adding people on the street or you think you have more pricing levers, for example?

Scott A. Hill

Chief Financial Officer, Intercontinental Exchange, Inc.

A

Yeah. So, it's a great question – and to a large – there are things we can clearly do to generate more trading activity by, for example, introducing new products. We've introduced hundreds of new products in the energy space. I always get the number a little lost. But out of a barrel of oil, a product out of a barrel of oil is called a crack, and there are over a thousand cracks that come out of a barrel of oil. And so, we've consistently listed more and more of those. There are multiple delivery points for natural gas in the United States, and that's really where we do well, the basins between Henry Hub, which is the primary market, and the different delivery points. So there are ways that we can generate more activity by launching new products or new delivery points, and we've done that and that's contributed to growth.

The most fundamental driver though is volatility. And that's not really company-initiated. That's weather-initiated. It's war-initiated. And so, again, one of the things that's been helpful in the shift of being 90% volume-related to 50% volume-related is the stability of our earnings and the predictability of our earnings has increased. But notwithstanding, our trading business will do really well, given where we are, unless we end up in a world with even weather patterns, no conflict, et cetera, which is a world I'd love to live in, no Brexit votes, no surprise Trump elections, those kinds of things. I'd love to live in a world where we didn't have that kind of volatility personally, but I think it's a consistent driver that has always existed and will. And the bigger question is, are the asset classes that trade and clear on your platform, are they directly related to the relevant volatility in the global trends and our products are.

Kenneth B. Worthington

Analyst, JPMorgan Securities LLC

Okay. We're going to have to wrap up there. Thank you very much.

Scott A. Hill

Chief Financial Officer, Intercontinental Exchange, Inc.

All right. Thanks, everybody.