

04-Mar-2014

IntercontinentalExchange Group, Inc. (ICE)

Raymond James Institutional Investors Conference

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MANAGEMENT DISCUSSION SECTION

Patrick J. O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

All right. Good afternoon. We will go ahead and get started with the afternoon session here. For those of you who haven't met me, my name is Patrick O'Shaughnessy. I'm the capital markets analyst here at Raymond James. Presenting next we have IntercontinentalExchange Group. That's a nice mouthful at this point. You can just call them ICE. And we have CFO, Scott Hill, here. And with that, I will turn it over to Scott.

Scott A. Hill

Chief Financial Officer & Senior Vice President, IntercontinentalExchange Group, Inc.

Super. Thanks, Patrick. All right. Thanks for the introduction and thanks for having us at your conference. Glad to be in Orlando today and have the opportunity to tell you a little bit about our company, ICE. Let me start, though, and just point you to our Safe Harbor statement on this slide.

And then I'll start on slide 3, on the commitment to execution and growth. And I'll begin by introducing IntercontinentalExchange, or as Patrick said, ICE, as we're better known. We operate a leading global network of 17 regulated exchanges and 6 clearing houses for financial and commodity markets around the world. You can see on this chart that we've consistently delivered growth on top of growth throughout economic cycles while we have expanded our markets from one asset class in the year 2000 to nine asset classes today.

Our net revenues have grown 14% on a compound annual basis over the past four years. In 2013, our net revenues grew 23% to \$1.7 billion as we completed our acquisition of NYSE Euronext on November 13.

Our strong performance is driven primarily by a growing demand for risk management, and that's particularly true in our commodities asset classes with our oil and ag complexes each turning in record volumes and demonstrating the diversity of our product offerings. And we delivered net income growth of 16% in 2013, which is consistent with our historical growth and our objective to deliver double-digit earnings on a consistent basis.

If I move to slide 4, I'll highlight our pro forma revenue diversification which includes NYSE Euronext for a full year. On the left-hand side of this slide, you can see the pro forma net revenues by business line for 2013 as it's currently structured, including the cash, the derivatives, technology, data, and listings.

On the right side though I think is a more instructive graph which shows our pro forma revenues once we exclude Euronext, which we plan to IPO in the second quarter, along with certain NYSE technology businesses that we plan to divest. If you look at the graph on the right, what you'll notice is that our derivatives business expands from 44% to 50% of net revenues, including 32% in commodities and 18% in financial futures and equity derivatives.

Post-Euronext, also importantly, cash trading will represent just 6% of consolidated revenues on a pro forma basis. This mix shift along with anticipated synergies should drive consistent margin expansion, which I'll talk about in a moment.

If I move to slide 5, I'll walk through some of the drivers of our long-term growth. I mentioned our product diversification to serve the demand for risk management across energy, ag and financial futures contracts. These products are distributed to thousands of customers around the world on our highly reliable, secure trading platform and are cleared through one of ICE's six clearing houses. This infrastructure has created transparency and liquidity in our markets, lowering cost and increasing access for participants.

It's also enabled us to focus on new product development and to extend our futures market from listing a handful of benchmarks to listing hundreds of new contracts today. In 2013 alone, we introduced 150 new contracts for clearing.

As a result, ICE lists leading global benchmarks across crude, refined oil, interest rates, equity index, and agricultural products. And in 2013, average daily volumes for our energy, interest rate, and ags complexes grew 10% for the year with oil and ag volumes growing 9% and interest rate products up 25%. And as more and more market participants look to trade and mitigate risk across multiple asset classes, our suite of benchmarks positions us well to meet their needs today and into the future.

On slide 6 I'll discuss drivers in our energy and ags futures markets. On the left, you can see the four-year 17% compound annual growth rate in energy futures volumes. This has been driven by Brent, global oil, WTI, and gas oil contracts.

When we acquired the International Petroleum Exchange in 2001, the Brent contract had 25% market share. Our Brent and WTI market share today is 55%. And today, Brent is clearly the benchmark around the world for global oil, including two-thirds of the world's oil products.

On the right, you can see we've also grown ag volumes, 6% on the compounded annual rate since 2009. This has been driven by increased customer demand for hedging price risk. Strength across both our agricultural futures markets has largely been driven by our world sugar contract with daily volumes up 8% in 2013. We also saw record volume in canola futures, and we have partnered with the cotton industry to prepare for the 2014 launch of an international cotton contract. And by adding Liffe's sugar, coffee, and cocoa to our product set, we will create additional hedging opportunities for our customers.

On slide 7, I'll walk through our interest rate futures business where we are a leader in European short-term interest rates as a result of our Euribor and sterling contracts. In 2013, Euribor contract volume rose 32% over 2012 as increased volatility occurred around potential rate increases.

We have a suite of midterm rate products that have performed well and are continuing to introduce more products along the middle to long end of the curve to meet our customers' trading and risk management needs and drive greater capital efficiencies.

We acquired the business at a cyclical low level and that, combined with new product innovation, should position us well for growth going forward. We also became the administrator of LIBOR last month and will work to preserve and build confidence in that benchmark.

On slide 8, you can see annual clearing revenues for our credit derivatives business which reached a record \$80 million in 2013. This is up from \$60 million in the prior year and was driven by the mandatory clearing requirements that were phased in during 2013. Our comprehensive clearing solution drove significant increases in clearing from the buy side and we continue to see strong participation in 2014.

In 2013, we introduced nearly 180 new credit default swaps for clearing. We also launched EU client clearing in Europe well ahead of expected EMIR mandatory clearing mandates.

On the execution side, we launched ICESwap Trade, our credit default SEF, and while market conditions are still challenging, regulatory uncertainty in the U.S. is starting to subside. For 2013, total credit default swap revenues were \$145 million, up 19% from the prior year. And through January, as I mentioned, we've cleared \$48 trillion in gross notional of CDS and that business continues to perform well.

On the next slide, I'd like to highlight the leadership in our equities business. In 2013 and for the third consecutive year, NYSE led global exchanges in IPOs. This included \$59 billion in proceeds, almost three times our nearest competitor. We've established a leadership position in technology IPOs with approximately 54% market share. We believe our unique market model brings confidence to issuers. In our U.S. cash equities markets, we continue to generate solid cash and market share amid a highly competitive environment, and we'll continue to advocate for our issuers by providing markets that engender confidence.

As we look ahead on slide 10, you can see we are focused on a number of strategic opportunities. I'm not going to read each of the items on the slide, but suffice it to say we see a number of opportunities across each of our exchanges across OTC markets and based upon our global clearing footprint and within the listings business. We will continue to invest in these areas to build on our track record of generating top line growth.

And as we invest to grow, we will also carefully manage our expense and resource level in order to deliver the \$500 million in expense synergies by 2016 as noted on slide 11. We're well on our way having already realized over \$100 million in synergies by the end of 2013 and, based upon our expense guidance, we expect to exit the first quarter of 2014 having delivered over \$200 million of those synergies. We are on track to realize 70% of our total synergies as we exit 2014 and 90% of our total synergies as we exit 2015. This disciplined approach to investment coupled with aggressive expense management will enable us to stay true to our commitment to deliver double-digit earnings growth and strong cash generation.

Slide 12 is a simple picture that demonstrates our ability to quickly return to traditional margin levels. We believe margin expansion will be a key measure of our progress as we execute our integration plans. These include both synergy achievement and a strategic spinout of Euronext and certain technology businesses.

When we announced the NYSE Euronext deal, our pro forma consolidated margin was roughly 42%. After realizing \$95 million in synergies, our operating margin expanded to 45%. With the IPO of Euronext and the divestiture of certain NYSE Technologies businesses, those margins will lift to 48% to 49% during 2014. And as you move forward, at a 70% synergy run rate, margins should reach 54% to 55% as we enter 2015. And as we move towards full synergy achievement of \$500 million by 2016, we believe our operating margin can return to 60%. And to be clear, this progression is based solely on the execution of our integration plan.

On slide 13, you can see that we've generated solid cash and returns again in 2013. Operating cash flows were a record \$735 million, and we ended the year with just under \$1 billion in unrestricted cash and cash equivalents.

In December, we paid our first dividend of \$0.65 a share, and we will pay our first quarter dividend in that same amount at the end of March. We ended the year with \$5 billion in total debt and an adjusted debt-to-EBITDA ratio below 2.5 times. We're committed to delevering to get our debt-to-EBITDA target of 1.5 times by the back half of 2015.

And importantly, given the solid cash flow we expect to generate and our strategic divestitures, we will continue to pursue growth opportunities and, longer term, utilize our share repurchase program while maintaining our investment-grade rating.

Lastly, we continue to deliver returns above our cost of capital and above that of our competitors, and this remains a key measure of success for ICE.

I'll close on slide 14. Since we became a public company in 2005, we have demonstrated a consistent track record of growth. You can see here that we have grown EPS 18% on a compounded annual basis, and we grew 8% in 2013.

In 2014, we remain focused on growth across our markets, ranging from equities and options to commodities and interest rates. Equally as important, we will continue to build upon our leading clearing position by investing in our risk management systems and platforms globally, and we will continue to seek leadership in our listings business based on our unique market model. Our team is focused on advancing our integration with NYSE Euronext and the Singapore Mercantile Exchange. And we will drive these initiatives all with a focus on our customers and generating strong returns for our shareholders.

I appreciate your interest in ICE, and I'd now be happy to take any questions.

Patrick J. O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

Yeah, we have I think about 15 minutes or so for Q&A. So you can just ask your question, then, Scott, if I could just ask you to repeat the question for the microphone.

Scott A. Hill

Chief Financial Officer & Senior Vice President, IntercontinentalExchange Group, Inc.

Okay.

QUESTION AND ANSWER SECTION

Patrick J. O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

Q

All right, quiet room; after lunch. I'll go ahead and just kick it off. So I guess, first question would be on Euronext. How good are you feeling about the IPO process? What sort of timing do you think we're looking at at this point? And do you have a sense for what your post-IPO ownership percent might look like?

Scott A. Hill

Chief Financial Officer & Senior Vice President, IntercontinentalExchange Group, Inc.

A

Yeah. So, it's a good question. So, with regards to the Euronext IPO, we feel very good about our progress in getting to that IPO. We mentioned in our most recent financial disclosures that we anticipate that we will complete that IPO in the second quarter of this year.

As I look at what's necessary to get that done, first, we've got to separate Liffe from Euronext. We've got to determine what's in the perimeter of Euronext in the business that we're selling. And then do the traditional things: put together a prospectus which includes audited financials, et cetera. So, all of those things are completely under our control and we're well on track.

Clearly the one I guess wild card, for lack of a better phrase, are the regulatory approvals that we'll need to get along the way. We believe that we're well lined up to make that second quarter date. We have a very clear understanding of which approvals are required on what timeframe. And so we feel like we're on good path to achieve that date.

I've probably spent three of the last seven weeks in Europe actually talking to potential investors and working on the various dynamics around the IPO. And it's been really encouraging from a couple of standpoints. Number one, there is very clear demand for investment in this business. And it's pretty broad-based. It's ranged from – I think there clearly is retail demand; there are local financial institutions that are interested; there are institutional investors, some of which already own ICE, who've reached out and said we'd be interested, we'd like to meet Dominique and the management team; sovereign wealth funds. So, there's a very broad-based interest in this entity, which is encouraging because, as you move towards an IPO and – we haven't said how much we're going to sell, that will depend on price and market reception and all of that. But it's very clear there's a strong demand at this point in time.

And so, that's encouraging because that will help execute the IPO. I think it will help the regulators get more comfortable with us moving to the IPO because there is market demand and interest, and as excited as I think they are about having a European exchange back with a sole focus on Europe, I think they're seeing that the investors are excited about that as well. So, I think that helps.

I think the thing that I find even more encouraging is embedded in the interest in an investment in Euronext is a view that the European economy is starting to get a little bit better. And while I don't think anybody is calling a turn right now, as I've talked to investors in Europe, I mean, they have a really positive view on the back half of 2014 as we move into 2015 of things getting better. And again, for me, there's two pieces of good news that's embedded in that.

The first piece is it helps with regards to valuation of the business we're trying to sell. But the second thing is it's a good indicator for the business we're going to retain in Liffe, because as you've seen with some of the CME results over the last 12 to 18 months, when the U.S. economy started to move and rates started to move, volumes kind of went with that. We've seen the occasional spike in the European rates, but really, I think the big driver, and when we said consistently that we think we bought this business at a cyclical low, embedded in that is the fact that we believe that the European economy is poised to get better, and as it does, we would see the volumes rise with that.

So Euronext, to your question, I think is on track to the dates that we had mentioned in the second quarter. Very strong investor demand which gives us good confidence that it will be a successful IPO, and that confidence is based in a view that Europe is getting better, which is good for not just the to-be-IPO'd business, but also the retained business.

Yes?

Q

At the beginning of your presentation you said that 50% of the revenues were from derivatives, is that right?

Scott A. Hill

Chief Financial Officer & Senior Vice President, IntercontinentalExchange Group, Inc.

A

Yes. On a pro forma basis, once Euronext and NYXT technologies businesses...

Q

So the other 50% is cash equities or...?

Scott A. Hill

Chief Financial Officer & Senior Vice President, IntercontinentalExchange Group, Inc.

A

No. 6% is cash. I got to flip back to the chart...

Q

It was fast.

Scott A. Hill

Chief Financial Officer & Senior Vice President, IntercontinentalExchange Group, Inc.

A

Yes. Sorry. Usually that's the boring part when I have to read through the script, so I move a little quickly. So if you look on the right side, you've got other which are things like co-location, connectivity. You've got market data at 13%, listings at 12%. Cash trading is the light blue you see on kind of the lower right-hand side of the circle, is only 6% of the business.

Yes?

Q

Talk about your [indiscernible].

Scott A. Hill

Chief Financial Officer & Senior Vice President, IntercontinentalExchange Group, Inc.

A

Yes. So the question was with regards to how we think about capital in the near term but then also longer term. And the questioner mentioned specifically, we've put out publicly that we are committed to getting our leverage down from 2.5 times to 1.5 times. And that's based upon frankly a view that we have that – and it's a view informed by the ratings agencies – that an investment-grade company needs to be at or below that 1.5 times level. We operate clearing houses; it's very important for us to be an investment-grade company for that reason, and so that's the objective.

We've got about \$5 billion of debt outstanding roughly, just using round numbers, \$2 billion of EBITDA, that's the 2.5 times, so effectively I need to pay \$2 billion of the \$5 billion down to get to 1.5 times. And so, that is the first objective, is to get our leverage back down to that 1.5 times range.

If you think about, again, with no growth and paying for the dividend that we've announced and paying for the CapEx that we've talked about, this business still is going to generate well over \$1 billion of cash. And so the cash flows alone will allow us to delever by the back half of 2015 which is where we guided.

And then the unknown gets a little bit back to what Patrick talked about which is the IPO of Euronext. So depending on when that goes off and how much we're able to sell and what the valuation is on that business, that then means that it could potentially allow us to accelerate that deleveraging, which we're really interested in doing because while we're committed to the deleveraging, what we really want to continue to be able to focus on is investing in the growth of our business. And as you've seen historically, when we've issued shares and deals, we've always tried to get back into the market subsequently and buy that dilution back out. So we'd like to be able to get back to a point where we're able to repurchase our shares as well.

We're committed to the dividend that we've announced, but as we think about the priorities, we're going to get delevered, we're going to continue to look for growth opportunities and I think we're focused on ensuring that we are able to reduce some of the dilution around this deal. It drives me crazy right now that I can't get in when a MiFID II headline goes out and the stock gets hit \$5 or \$6 that I can't get in, because I think that's one thing that we did reasonably well post the Creditex deal when we used shares, is when the headline hit the stock, it had nothing to do with the fundamentals of the company; we were able to get in and buy those shares back, and I think we're looking forward to being able to get that ability back.

So that's kind of how we're thinking about our cash capital use as we look forward.

Yeah?

Q

Internally, how do you think about organic volume growth in ag, energy and [Eurex] contracts? And how would you set expectations or how – or do you set expectations and guidelines on what that will look like over a decade and the growth drivers of that organic growth?

Scott A. Hill

Chief Financial Officer & Senior Vice President, IntercontinentalExchange Group, Inc.

A

Yes. So the question was related to – I'll broaden it a little bit, the commodities, ags, energy, et cetera, and how we think about growth and whether or not we provide guidance either in near or longer term. And the answer is we don't give guidance on the top line. What we do say is we believe we've built a business model that can generate double-digit earnings growth every year, and that's the objective and that's what our board expects and that's what our management team gets paid on. But some years, that's going to be low revenue growth and focused on expense management. Some years, it's going to be stronger top line growth and continued expense management then as well, but it just kind of accelerates.

So, we don't really talk about a number. So, we don't typically say, hey, we're going to grow 4% this year or 7% or 11%. But we do look at and talk about trends, so, and unfortunately, you've got to break the business down. So, in our ags business, open interest has been trending up strongly over the past year. And there have been a few what I'll call market-specific events. Brazil, which is where the sugar crops are grown, has had a drought situation. And so we've seen volatility in that product and open interest has been growing. And open interest, still, is a good guide for ags, and our ag volume growth has been really good.

Oil, open interest has built well, but frankly, oil has been kind of \$100 to \$110 and so not a lot of volatility. First couple of months this year, our oil volumes haven't been great. But on the other side of that, natural gas which was almost no volatility at all through the first eight or nine months of last year, as the winter has run its course which – and I'm sure you read about the issues in Atlanta and I have friends still up in the Northeast that have had to deal with it, that's put a lot of volatility back in. And even though our OI didn't grow in that business over the last couple of years, it was a very high level and was stable. And now as we get the volatility, those volumes are growing.

So, it's difficult. Unless I can predict – I'll just give you another example. So, yesterday we did over 850,000 Brent contracts, we set a new record in UK natural gas, all around Ukraine. So, you can't really predict when an event like that is going to happen or how bad the winter's going to be. So, we don't give a number. But what we do talk about is the breadth of the product offerings that we have. And so, while oil is a little softer from a growth standpoint right now, natural gas is great and ags are great. Our CDS business continues to grow.

So, the breadth of our portfolio gives us confidence that we can generate top line growth even though there are pluses or minuses in between. And then we use our ability to manage expenses underneath that to give a commitment to deliver the double-digit earnings.

Yes?

Q

[indiscernible].

A

Scott A. Hill

Chief Financial Officer & Senior Vice President, IntercontinentalExchange Group, Inc.

Yes. So, the question was could I talk about new products and addressable markets. So, the addressable markets is a difficult question. That's a question I've gotten a lot over six or seven years and I've never had a great answer because the OTC markets have not been particularly transparent in terms of size. I actually think one of the benefits that we're going to see from the trade reporting requirements in the U.S. and Europe is we're going to start to get a better sense of how big some of those markets are.

But with regards to new products, I mean, again, it's a very diverse and broad business; you've got to kind of break it down into categories. We launched, as I mentioned in my remarks, 180 new CDS products last year. We'll continue to launch those new products. One of the ones that's hopefully on the very near-term horizon is the Western European sovs [sovereigns]. And we've been working on those for some time now and we hope that we can get the final regulatory approvals to launch those.

From an energy standpoint, I talked about 150 new products that we launched last year, and that runs the gamut between different delivery points and different cracks out of a barrel of oil based upon a customer coming to us and say, "Look, I've got this specific risk related to oil. You don't have a product that allows me to hedge that exposure. Please launch it."

And then, an area that clearly is new for us and one where we're particularly excited is with regards to new interest rate products. That's a business that until we were able to close on the deal in November, we really haven't been all that involved. And we did get the clearing up and running in the summer of last year and so we've been able to collaborate on new product launches in advance of the deal closing, but you're now starting to see the new products really start to turn there. So we've announced some, what I'll call midterm interest rate products. We've announced the 30-year gilt product.

And that's an area where I think you should continue to watch that space because in the interest rate space – the Liffe business is a very solid business but it didn't have any control over its clearing prior to moving that clearing to us in the summer of last year. And so literally when I went to meet with them January a year ago, they sat down with eight pages of new products that they had really wanted to list and we're working our way through those right now.

I think similar to what you saw once we got our own clearing of energy, it's not that any single one of those products is necessarily going to be the next STIR or the next – they're all going to add together incrementally and generate revenue and profit, which, again, is the same thing that we saw in energy. It's been, I think we're up around 800, 900 new energy products that we've launched. Across the aggregate, it's millions of dollars of revenue, not a lot of incremental cost, so it drops straight down to the bottom line.

And so I think from an interest rate standpoint, that's where we're focused right now is working through that list of new products.

So, across all our businesses, I think there are new product opportunities. And an area where we continue to focus is in our clearing house providing a broader and broader set of product, because customers who have different risks want to be able to bring a complete portfolio into the clearing house and they want to in as capital-efficient a manner as possible, and the way I do that is by continuing to launch new products.

Yes?

Q

It sounds like some of what you're doing and going to do are things that the banks needed to do. But now with regulation [indiscernible] ...

Scott A. Hill

Chief Financial Officer & Senior Vice President, IntercontinentalExchange Group, Inc.

A

Yeah...

Q

With these things you expect to expand in, like energy contracts [indiscernible] ?

Scott A. Hill

Chief Financial Officer & Senior Vice President, IntercontinentalExchange Group, Inc.

A

Yeah, I think there's some truth to that. I think what's happening with regulation is you were seeing a mandate in the U.S. and in Europe for over-the-counter markets to be moved into clearing houses and on to execution venues. And so I do agree, to the extent you had OTC markets where the banks were doing bilateral deals – CDS is a great example, right? There was no CDS clearing house five years ago, and we've cleared now \$48 trillion and it used to be you had bilateral exposure to the bank. And so the rules and the regulations are starting to eliminate the ability of banks to do those bilateral trades.

I don't think it's so much that we're stepping in to replace the bank. I think we're facilitating the banks and the ir customers doing that trading on a transparent execution platform and putting it into a clearing house from an OTC standpoint.

From a futures standpoint, a lot of that market, particularly on the commodities side, it had already moved onto exchanges and into clearing houses, and so it's really just rounding out product sets. And there, I think we serve what I'll call the commercial customers and the banks, and there's overlap there between when am I operating as a counterparty and when am I operating as a physical commodity owner. But I think we help facilitate those trades and have for some time by – where a bank would write a big hedge in the bilateral OTC market on behalf of a customer, they could lay off that risk in the futures market. And that's something that's been going on for a long time.

So, I don't think it's replacing the banks. I think it's really facilitating the banks continuing to operate in an evolving regulatory context.

Patrick J. O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

Q

I think, no more questions. So with the MiFID II being written and such, I'm still trying to work out some of the details over here. How confident are you that MiFID II is not going to significantly impair, or impair at all, your business model and the particular essentials that naturally come from a futures exchange?

Scott A. Hill

Chief Financial Officer & Senior Vice President, IntercontinentalExchange Group, Inc.

A

Yeah. So, with regards to MiFID II, talk about what we know and what we don't. So MiFID, the best analogy for those of you that are U.S.-based is kind of Dodd-Frank. So Dodd-Frank went into effect in 2010. But over the subsequent two, three years, the SEC and the CFTC had to write rules to interpret the Dodd-Frank law. In Europe, Europeans call that level 2. Level 2 is effectively ESMA going to work to write rules that will implement MiFID II.

And so, what we know in the language is there is a discussion of open access and there is a discussion of treating economically equivalent contracts the same and there's position limits. We don't yet know what any of that specifically will mean.

That notwithstanding, where we feel we've got an advantage is we've built a very broad-based business. We've got a clearing house now in Singapore and we've got clearing infrastructure in the U.S. We've got clearing

infrastructure in London. And all of it runs on a similar technology. We're predominantly driven by global products and we serve a global customer base. And so, as the regulation evolves, to the extent customers want to make a different decision on where they want to be or the regulation forces a different decision on where the trading is going to occur, we feel we've built a business model that will allow us to fluidly serve the customers wherever that business goes.

I will tell you though, at a broad level, I think MiFID II and Dodd-Frank effectively validate the model that we've built because what they're saying is we want to bring more trades onto an execution venue, into a trade repository for more transparency and we want the security that a clearing model provides, and that's the business we've built. And again, I think the unique way we have built it by having the geographic diversification, not just we're in a location, but we're in a location doing business, I think that's meaningful and it helps us be very flexible and very fluid depending on how the regulation goes.

Patrick J. O'Shaughnessy

Analyst, Raymond James & Associates, Inc.

I think we're out of time. Thank you.

Scott A. Hill

Chief Financial Officer & Senior Vice President, IntercontinentalExchange Group, Inc.

Okay. Thanks, Patrick. Thanks, everyone.

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