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# Intercontinental Exchange, Inc. (ICE)

Sandler O'Neill Global Exchange and Brokerage Conference

# CORPORATE PARTICIPANTS

Jeffrey C. Sprecher
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Richard H. Repetto
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# MANAGEMENT DISCUSSION SECTION

## Richard H. Repetto
*Analyst, Sandler O'Neill & Partners LP*

So finally back home here. So now back to the U.S. Our next Exchange to present is ICE, the Intercontinental Exchange. Jeff founded ICE back in May 2000, has made a number of acquisitions, we're not going to go through all of them, but the most recent and largest is he brought NYSE Euronext in November 2013. So I'm just going to let Jeff give us a short update, and then we'll go through our fireside chat.

## Jeffrey C. Sprecher
*Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.*

Thanks, Rich. It's nice to be here with you guys. Thanks. Rich and I talked about me just giving a quick update on some slides. And then we're going to get into some Q&A. So let me start by calling your attention to our safe-harbor language for forward-looking statements.

But starting for those that are listening on, what we have is Slide 3. You can see why we've been known as being very customer focused. We've been able to build exchanges and clearinghouses that have allowed us to grow. Since our IPO, where we went public on the New York Stock Exchange in year 2005, we have a compound annual growth rate of revenues, 35%. We've been able to focus a lot on the evolution that's happened since 2005 and as Rich mentioned, we've done a number of strategic acquisitions, as well as a lot of organic growth that has contributed to that. And today, we operate 17 exchanges around the world. We also have five clearinghouses. And our footprint oversees nine different asset classes, which is up from the one modest asset class that we had when we started the company.

We're pretty well along in the acquisition of our latest – or one of our latest exchanges, NYSE Euronext and making very good progress on integrating it and we're seeing the benefits of it and one of the benefits that we get, turning to Slide 4 is the diversification of our markets. If you look at – the pie chart on the left is our 2013 business line. But next to it you'll see on the right side what our mix looks like after on a pro-forma basis, after we spin out certain technology businesses and take the Euronext exchanges public. You're going to see that our derivatives business is about 55% of our revenue, which is, 32% is in commodities and 23% in financial products. You'll see that our commodity exchanges will be very, very healthily spread across oil, natural gas, sugar, metals and a number of basic commodities.

Our financial contracts will now extend in the interest rate business, the equity index business and currency contracts. In addition, we will operate two U.S. equity option exchanges and three U.S. cash equity exchanges and after the IPO of Euronext, that U.S. cash equities business is actually only 6% of our revenue, even though the New York Stock Exchange obviously has an amazing brand and franchise.

I want to talk about how that mix of business is helping us right now. I think a lot of you who follow our space know that you've seen a lot of our peers and people that are in the trading space talk about how quiet the volatility has been over the last quarter. But in my Company, we've made a commitment to growth and we've been able to achieve growth, even though you see that our volumes, like many people in the last quarter have gone down. The way we did that is that even though volumes went down, we grew – we were able to grow our revenue by 1%. And by growing our revenues 1%, we were able to grow our adjusted diluted earnings per share, 28%. And so – and our operating cash flow up 16%. So in a very muted environment right now, by having a lot of diversity and mix and opportunities to cut costs and to deliver services to our customers, we had tremendous EPS growth.

Underneath that, what did we do and on Slide 6, you can see that we were able to grow our CDS clearing business, which had $26 million in the last quarter. It was a $10 million increase over the quarter before. Our natural gas markets, which were quite quiet in the U.S. after the cold winter in this fringe period, U.S. natural gas markets were quite quiet, but they were more than offset by volatile natural gas markets and high growth that we had in Europe, which grew 64%. In addition, we had interest rate revenues that increased $80 million in the quarter, despite the fact that volumes went down 26%, as central bank policies were coming through. And across our agricultural complex, we were able to grow revenues by 14%.

And finally market data revenues that we had were up 13% in the quarter. And the nice thing for us about that as a metric is that market data revenues go up when your data becomes more valuable and when it becomes more valuable to more people and that is a very good predictor of future growth for us. So despite the quiet conditions, we had a lot of bright spots that drove revenues.

Just then to close out on this prepared part of the presentation, the diversification that we built into the business has turned out to be a really powerful driver of EPS growth for us. It's given us opportunity to do things in an area where we're going through a lot of evolutionary change, both regulatory change and change to the way capital markets are operating. We've been able to deliver on the commitments that we made when we acquired NYSE Euronext by – in the first full quarter of owning the business, we have 44% of the synergies that we promised already out of the businesses.

We started with this new footprint to develop a lot of new products and we've launched 80 new products in the first half of the year in interest rate and energy and these are things that are drivers of future growth for us and are important products that our customers have been asking us to put out. And finally we maintain a lot of momentum across our market data and our global listings business, which are again important drivers for us. They're predictors of future growth.

And so with that I'll leave our prepared remarks and I'll ask I guess Rich to hit me with some softball questions, I hope.

# QUESTION AND ANSWER SECTION

Richard H. Repetto
*Analyst, Sandler O'Neill & Partners LP*

Q

Here's some water for you. We had a fire back from last year, it's been burning for roughly a year.

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

A

Lots of Duraflame...

Richard H. Repetto
*Analyst, Sandler O'Neill & Partners LP*

Q

So, I guess very first question; your team did tell me that they were preparing the slides in regards to the quarter and the flat revenue – even though volumes were down, but did it surprise yourself at the end, because it took us a while to dissect. We know where the revenue was flat, but it took us a while to dissect where it came from.

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

A

Yeah, it's interesting because it's been easy in our business, in the business of exchanges and trading to just use volume, because we put our volume out every day and people track it and they use it as a predictor of earnings and the reality is there's more going on inside my company. I obviously knew about it because a lot of the things that they are allowing us to grow – earnings are the things that management has their hands on right now, the decisions that we're making and the changes that we're making. So I knew we were doing well.

We can never predict volatility. We just kind of have to skate to where we think the puck is going to go, and that's largely – there's some art and some science in that, and I really like where we have positioned the Company now in the asset classes that we're in. We had the luxury of building this exchange and sort of curating the markets that we want to be in at the moment that we want to be in them and we feel good about where we are right now. So it was not a complete surprise that we did well in the quarter.

Richard H. Repetto
*Analyst, Sandler O'Neill & Partners LP*

Q

So you've done a good job in going where the puck is as well, just on the products side....

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

A

They pay me a lot of money at this Company, so. The alternative is I go look for a job.

Richard H. Repetto
*Analyst, Sandler O'Neill & Partners LP*

Q

So just to stay on this point one more second you know one last second. So it does – again, the team now is much more diversified model. But you know -as you brought the two companies together, much more slimmed down management team, we get into sort of the management more. But do you think that we're balanced in regards to the management structure versus the diversification complexity of the Company.

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

Yeah, my – because I think, maybe because we were a startup company, we're just used to having working managers that are very, very close to their business and that have a flat organization. What that does is it allows us to get a lot of customer feedback and our sales people are – and the systems and the communications inside the Company are very good at getting us all communicating so that we're thinking about what are the needs of our customers.

My company has really never invented anything. We've just listened to what our customers are telling us they need and then we're trying to react and respond to that. And you can only do that if the organization is pretty flat so that the information is free-flowing.

You take a risk in doing that because you have a lot of our – my colleagues are very informed about what the business plan of the business is and it's a bit scary that everybody knows exactly what we're doing, because you worry that a competitor could steal one of your good employees and basically have your playbook. But what I have found is that if you – if people are informed and empowered, they tend not to leave and that's the best way to keep the information out of the hands of your competitors, which is to keep your team very close and tight. And that's worked for us. So now that we – we are a much more complicated organization in scale and scope and diversity of asset classes, but you have the same sort of core values that we're putting across all of that and it's going quite well.

Richard H. Repetto
*Analyst, Sandler O'Neill & Partners LP*
Q

I'm not aware of any department, management of the ICE...

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

We all like – we all have figured out how to work together and we like each other, and again, I think a bit like starting a country club or a fraternity or sorority. Ultimately I hired every one of these people. So I had the luxury of picking them myself, not inheriting them. And we enjoy working together.

Many of you here have known me and have known me for years and you really don't know my management team very well and I'm constantly telling you that I'm really just sitting on top of a group of great people that make me look good. But part of the culture of my firm is my colleagues actually like to work, and they don't really – they actually think sitting in front of this is a distraction and they don't want to do what I'm doing, so. And so we have figured out how to sort of parcel up the work and work together really well as a team.

Richard H. Repetto
*Analyst, Sandler O'Neill & Partners LP*
Q

Maybe it's Atlanta.

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

There is something about being in Atlanta. Actually our biggest operation by a longshot is in New York, but a lot of us like living in Atlanta and to a certain degree we're outside of New York or London or now Singapore, where these big trading centers are and we're looking at them from a distance. And I actually think it kind of helps you to look at these things from a distance. Many of you know, I've been very critical for example about the way the U.S.

stock market works and I never really thought about it until we started to get into it with NYSE. But sitting in Atlanta and just looking at this, you thought well some of this stuff is just ridiculous, and it was easy for me to complain about it, because I was an outsider looking in.

Richard H. Repetto
*Analyst, Sandler O'Neill & Partners LP*

Q

We will move to where you brought – you just talked a little bit about market structure. In full disclosure, Jeff was not at the lunch. He was actually doing investor meetings, but he had a representative. But it appears like at least the sentiment of market structure change again is moving your way, whether it'd be – I think she even – Mary Jo White when I say she, made hints of at least a review of maker-taker in conjunction with anything had to do with rebates. She didn't use that word, payments where there could be broker conflicts. You've been outspoken over that. So I guess the question here is are you more optimistic – again not hearing her speech, but just the sentiment of the debate, are you more optimistic that changes will be made that would be to your benefit? And then if they were to your benefit, what would the NYSE look like, if it was more of a futures like pricing model?

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

A

Well, I'm not surprised because when I looked at it, I just said and I said to many of you, the way it was operating before was – is unsustainable. So you never know what the dynamics of how something that's unsustainable will unravel but you could just see that it was unsustainable. I could see it. I think many of you probably agreed with me.

So I wasn't trying to be some kind of a spokesman on behalf of the industry. I was just saying what I thought was the obvious and inevitable, which is what we're doing here is unsustainable. It's going to change and I believe the New York Stock Exchange, because of its strong roots in the capital markets will be a leader at helping to lead out the – into the – whatever the new structure is and into change. And those were just – that's just me being an engineer, talking about facts.

And so I'm glad that we have an SEC that's engaged. Obviously the Flash Boys book, which I didn't know about and many of you probably didn't either, has galvanized more people at looking at the way these markets work. I think the markets can be much simpler, much easier to understand and in doing so will bring more confidence to the way they operate and I've said before, the pendulum of technology has swung too far and needs to be brought back and things made less complex. And I think as you do that, you're really going back to what the New York Stock Exchange has stood for, which is a gathering place for people who want to raise capital, to come together and I think the New York Stock Exchange is going to be a net beneficiary of market structure change and I think it should, particularly if it's managed well and continues to market itself appropriately.

So I feel I'm – like you say, I wasn't at this speech and this is way beyond a speech as I think there are things that the New York Stock Exchange can, and should and will do on its own and I think our competitors are likely to follow suit if we show some leadership and I think many of you in this room here today can contribute to help improving the markets, now that we have a bigger dialogue about it. And I believe – I believe that we, in the United States, we have representative government and I believe what you're seeing is our government is hearing all these voices saying that there's time for change now and they're reacting appropriately. So in that sense, I'm encouraged.

Richard H. Repetto
*Analyst, Sandler O'Neill & Partners LP*

Q

So you've actually talked and I've asked you before on calls that a balance between waiting for a regulatory response which – again there wasn't – there was a number – every time she sat with a table of exchange leaders, every time she said, I've directed my staff. There was some substance behind it. Now that may take a while. But I guess the question is, we've talked about like what can you do versus – as an exchange again. This is 6% of your revenue.

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

A

Right.

Richard H. Repetto
*Analyst, Sandler O'Neill & Partners LP*

Q

And versus the regulatory response and how can we expect you to take what you call entrepreneur – commercial efforts to straighten out the things that you...

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

A

Yeah. I mean, of course we're going to do things. I just want to do the right things and the things that will bring confidence back and help with capital raising. I had a unique experience and I started ICE and then I took it public on the New York Stock Exchange and I rang the bell there and I took what was a tiny little Company that was something I funded out of my checkbook and was a 100% owner of at one point, and took it through the process of raising capital. And because I raised that capital there, today we're the largest exchange group in the world by revenues. You couldn't do that, go through that process without having a massive appreciation for the power – of the ability to be a public company in New York on the Stock Exchange. And so, I have great reverence for it, and I want to make sure other entrepreneurs have the same opportunity.

So I'm going to do a lot of things and Tom Farley, who's now taking control, but who is a close colleague of mine and has been on the ICE Management Committee for the last seven years is going to take the lead on that. But we – he and I have been talking. We just were talking in the hallway today here on unilateral changes that we can make to improve it. I think, if we continue to do the right things, certainly our regulator will reinforce that we're doing the right things. I'm sure our competitors, if they see us doing the right things and having our customers react positively, will follow us.

You saw, what's amazing about IEX and what Brad Katsuyama has done, is that Brad's come out and just said I'm going to do something incredibly simple. I'm going to have four order types and a very rational way of charging people. And honestly that looks revolutionary. This is something that is – on its face is very, very simple, but Brad just came out and said, I'm going to be simple, easy to understand and fair. And he's got tremendous growth going on.

So, you say, well, to me I look at it and I admire what they've done. And we're behind at the New York Stock Exchange and we need to get with the program, doing the same kind of things that Brad is doing and he's not done that because of a regulatory mandate, he's not done that because of – somebody forced him too. He saw an opportunity, same opportunity that I see, which is to grow these markets by making them easier to understand and less complex. And so we're going to get on with it. We've already announced that we're reducing the number of order types. We're looking, we're continuing to look at our order types. There's more I think we can do there, there's more we can do in the way we deal with our customers, the way we operate our markets. And Tom now has been in the job all of about two weeks but he's up to his elbows in alligators and moving the Company forward. So quite exciting, quite a fun project for us.

Richard H. Repetto
*Analyst, Sandler O'Neill & Partners LP*

Q

One man's view of the speech in mind, this afternoon was the tone towards dark pools was negative. And so that – it would certainly be a positive. And I think your theme of – when you use the example of your Company, it sounds like you look at the exchange as a capital raise. Is that the primary tool?

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

A

Yeah, I mean that is what it's for, and I mean for all of you investors here, you want to know that once you buy into a company that you have a liquid market to exit it or to manage your position. So the secondary trading is important. But it's not the real reason the exchange is there. The reason the exchange is there is really for capital raising and we compete now for capital raising with all of these other exchanges around the world that have emerged and are allowing people to have access to other global markets. And it's important for the United States and for the New York Stock Exchange that we continue to bring the global business here and global capital raising here and the secondary trading is really kind of – it's really kind of a – it's really secondary. It's not where the New York Stock Exchange makes its money by the way. I'm talking about market structure changes, all of which will make better markets, none of which are probably particularly material to our earnings per share, but all of which are important to where we do make money and where we play an important role and that is the listing of companies to raise capital, the secondary offerings that people do to raise capital. Those are the areas where the Exchange really makes money for its shareholders, but it's also providing the most value to society and it's important that we get that right and keep it right.

I'm encouraged. I think Mary Jo White – she's going a great job and she's got a lot on her plate. The SEC is a really big complicated organization. I've learned that in the last six months for sure, but – with a big mandate. But I'm glad that they're spending time and attention on this area. We can use the help and I'll be there to help her however we can.

Richard H. Repetto
*Analyst, Sandler O'Neill & Partners LP*

Q

So, we talked about the model, but let's get back to one thing, where we started about the diversification. So, solid results in the first quarter that volumes were down 13%

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

A

Right.

Richard H. Repetto
*Analyst, Sandler O'Neill & Partners LP*

Q

But the question is what have you done for me lately? So volumes aren't looking that pretty this quarter. It seems like every asset class, volatility is down.

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

A

Right.

Richard H. Repetto
*Analyst, Sandler O'Neill & Partners LP*

Q

So we've – but is diversification going to be, where could we look for the potential – stronger help in the model. And I guess you've also – you bought the IP when energy bombed. You've been there and when Enron – and stagnant volumes of Enron, so you've been there.

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

A

I've bought Continental Power Exchange, which was the company – the predecessor company, I think, many of you know, I bought for $1. When I say it was a failing company, $1 doesn't go very far in buying a company. This was a failing company, which is today Intercontinental Exchange. I think when I bought the International Petroleum Exchange of London, it was worried about going extinct because it wasn't keeping up technologically. Today that's the largest energy exchange in the world. When we bought the NYSE Euronext, we probably paid the lowest multiple that anybody has ever paid for a major exchange.

I think we bought it at the low. I think it's got an amazing capital raising market that we just talked about in equities but more interestingly to me, an interest rate and financial services complex that I think we're buying in a zero interest rate environment, basically that I think is a historic low.

So we've – as all of you know, it's very, very hard to time when you buy and sell stocks. We all wish we had crystal balls. But I think that we have caught these moments in time that have been incredibly accretive and you can kind of see it in the long-term growth numbers that I put up on that chart, 35% compound revenue growth. Part of that is skating to where you think the puck's going to go and getting there at the right moment in time.

And this is – I think this is the time to enter the interest rate business, when we're in a zero interest rate environment, notwithstanding that we may have a quarter or two where there's not a lot of volatility. But I mentioned to some people in my small groups this morning – this feels a lot, the markets right now, this quarter feels a lot like the way the market felt about a year after Enron collapsed.

A year after Enron collapsed there was a lot of introspection going on in the United States particularly, where we were talking about corporate governance and we were talking about needed changes, government changes in the way corporate governance is regulated. We were talking about wow, look at all these derivatives. How did all these derivatives get on the books of all these different companies? Are they toxic or are they helpful? And there was a period there when our volumes were incredibly quiet for a quarter or two. And what came out after that was an unbelievable meteoric rise, because it was during that period that we built a clearinghouse, it was during that period that we started to build all these tools that allowed people to come back and really grow their business in a new way.

And I see that going on right now with Dodd-Frank, and the EMIR regulation in Europe, banks looking forward to Basel rule changes. There's a lot of introspection and change going on, but you see my company really building and putting in place a lot of foundational things, bedrock things that I think are going to really allow us to grow in the future.

Richard H. Repetto
*Analyst, Sandler O'Neill & Partners LP*

Q

So you don't believe – again I think we all acknowledge the low volatility level right now, but the big question is, whether it's of one quarter, two quarter or whether it's more a secular change, and I think the only think that could point in that direct would be sort of – I believe that dealers and you've heard them complaining about – I don't know whether it's complaining; but talking about what they expect with their revenues to be much lower. So you don't see that as...

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

Well, what I've come to learn by running these markets is the markets don't wait for whatever – the anticipated change to happen. Markets start anticipating change and they start moving well in advance of change. So I think we're going to start seeing the markets predict where things are going to go. And it seems like the markets are kind of trying to assess that right now. That's what quiet volatility is. But it would be unnatural to have a lot – a long period of no volatility in any asset class.

We still have a lot of world strife we have. There's still conflict in the Middle East. There's still conflict now with Ukraine. There's always weather issues, new government policies. None of us know where these stress points are going to come from, but the market will start setting up and predicting, and so I do think that it's unnatural to have long periods of no volatility anywhere in the world. It's just – it's not happened in my life.

Richard H. Repetto
*Analyst, Sandler O'Neill & Partners LP*
Q

So time flies when we've been talking all the time, but one last quick answer type question. When we're up here next year, what area we talk about of the world that has become interesting, become – that diversification of other parts of – the rest of the world. But what are you most excited about from a geographic standpoint?

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

Well, the area where we're putting the most investment, and so that's probably a good way of saying what we're thinking is – is in the clearing risk management treasury service collateral management business; as it's hard for – as banks are going to be constrained by Basel, as traders themselves will have more focus on balance sheet, which it seems to have spilled over way – well beyond the banking industry. A lot of our customers are talking about their balance sheet and optimizing balance sheet and minimizing leverage. The use of capital has to go farther. So that can be done with really good practices in the Clearinghouse. It's boring stuff because it's pluming and piping and modeling and quantitative stuff, but I think those areas where we're making investments will pay long-term dividends.

Richard H. Repetto
*Analyst, Sandler O'Neill & Partners LP*
Q

Just due to time, I got to stop here and I think I obeyed the rules and I didn't talk about market structure for more than a quarter percent of the time. So -

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

Well, you should – to have Mary Jo White here and make such a major speech, your conference is a testament to the conference. So you should take some time to talk about that.

Richard H. Repetto
*Analyst, Sandler O'Neill & Partners LP*
Q

We did yesterday.

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

Okay.

Richard H. Repetto
*Analyst, Sandler O'Neill & Partners LP*
Q

We'll have even better things to think about next year now. Anyways, thank you, Jeff.

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

I appreciate it.

Richard H. Repetto
*Analyst, Sandler O'Neill & Partners LP*

Thank you.