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IntercontinentalExchange Group, Inc. (ICE)

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MANAGEMENT DISCUSSION SECTION

Alex Kramm
Analyst, UBS Securities LLC

I think people are still trickling in, but there's been a lot of interest in ICE. So let's use the whole time that we have. So we're not going to do a formal presentation here. So we're going to do what I guess people like to refer to as a fireside chat. So I'm just going to kick it off and then please participate. I know there's a lot of questions here. But obviously, we're very delighted to have IntercontinentalExchange Group still, right?

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

No. No Group. We got the Group out.

Alex Kramm
Analyst, UBS Securities LLC

No. The Group already gone?

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

Our shareholders approved it. No more Group.

Alex Kramm
Analyst, UBS Securities LLC

All right. So just IntercontinentalExchange now. Here today, Scott Hill, CFO. And, yeah, we'll just take it pretty informal. And hopefully, with everything that they've got going on right now, with the integration of NYSE, the Euronext IPO coming up and so forth, I'm sure there's a lot of topics to cover.

QUESTION AND ANSWER SECTION

Alex Kramm
Analyst, UBS Securities LLC

Q

So, I guess, maybe just start with some of the things that we've been hearing over the last, I guess, few weeks since earnings. I think you've been pretty clear in the past on synergies and timeline. But it seems like there still continues to be some confusion, and we saw that after the first quarter results.

So, maybe you could just clear up some of the things that you've heard and also that you've seen. What is the outlook for the year? Maybe you can lay out a specific guidance. When costs are coming in? Maybe also what are the specific projects that people should be thinking about in terms of why some of these things are very backend-loaded this year?

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

A

Okay. Yeah, there's a lot embedded in that. If I don't hit it all, you can circle me back to it. I think what we've definitely heard from investors is that it was less that there's confusion in what we said and more of that – in a world where oil prices and U.S. nat gas prices are relatively stable and volatility is relatively low, I think there was a hope, or an expectation maybe even, that the synergies we would come out and say we're doing it faster, we're doing more.

And I think in respect to that, I mean, it's not really a changed story. We said we'd get out $500 million of synergies. We're still on track to do that. By the fourth quarter of last year, we had a run rate of just over $100 million. By the first quarter of this year, we had a run rate more than double that at over $220 million. And what we've said is that by the time you look at first quarter of 2015, that run rate will reflect $350 million, so 70% of our synergies done, which is very consistent with what we've said all along.

I think just to break down the two maybe areas of focus is, one is, well, why can't you do – why can't you get to $350 million faster? And the reality is a big part of the next cost synergies relate to the integration of the Liffe platform into ICE Futures Europe and relate to us doing the further integration of the corporate functions. You may recall that ICE is a company before the merger of about 1,000 people. There are about 900 people incorporated at NYSE, and we are effectively merging the entire Liffe business. It's already in our ICE clearinghouse. We're moving it onto our ICE trading platform. Those are pretty big pieces of work to get done.

And so, it will take the course of this year to get that integration done. It's not a situation where we can look around at a dollar of spending and say, let's stop spending that two months earlier. We'll stop spending on the Liffe platform as soon as it's integrated, and that's going to happen over the course of the year. We'll reduce the corporate functions once the systems are rolled out and the workload has been reduced and the people have been moved. And all that, that just takes time.

And so, effectively, what you get is that expense is in the run rate through the year. And as you enter first quarter with the integration done, with the Liffe platform migration behind us, it shows up in the run rate.

And so, again, I don't think that's different than what we had said before, but there's not really a lot of opportunity to accelerate. We did say that we would yield another $15 million to $20 million over the course of the year, which would get us to call it the $240 million range by the time we get to the end of the year. But, again, that $240 million turns into $350 million over the turn of a quarter.

And then I think just in terms of the overall size of the synergies, the – one thing that I think we were very clear about going into the deal was we really didn't spend a lot of time looking at what the cost opportunities were or really touching the dials a lot at the New York Stock Exchange business itself. And so we hadn't planned on a lot of changes there. We had not counted on much of the $500 million related to that business.

But that clearly, once we got the deal closed in November, has been an area where we've spent a significant amount of time. We've put one of our executives named Tom Farley in to be the COO of that business. For those of you who've been around ICE for a while, you'll know Tom. He was the guy that was hired onto ICE around the same time I was to take over the New York Board of Trade. And he did an outstanding job integrating that company into ICE and generating a lot of efficiencies. And we've asked him to go in and similarly look at the New York Stock Exchange, including in the first instance, what are the opportunities to be more efficient from a technology standpoint? Get from multiple platforms for the cash equities business down to a single platform. We increased our CapEx guidance a little bit to reflect some of those investments.

But the good news is that the return on those investments, ultimately, we would anticipate will be additional synergy. And so, as we move through the course of this year, I think investors would likely expect that we'll come back with a little bit better view of what synergy opportunities exists in that part of the business where we really didn't spend much time in terms of the overall $500 million.

Alex Kramm
Analyst, UBS Securities LLC
Q

You actually just hit on the point that I would have just asked you now, which is that new investment in the NYSE trading platform. I think you outlined how much you're spending on it. But can you give us a sense for it? It seems like you're spending to save eventually. So any sort of color how much the current trading system, kind of in terms of D&A and potential write-offs, we could see in the future and what it ultimately could be sized down to?

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

Again, that's a little bit to come, right? I mean, we're still in the very early stages of assessing. We know we need to do it differently. We know we need to get to a single platform. But understanding whether that means that X number of technology people can be cut by 20% or 50% and whether CapEx can come down by 10% or 30%, that's still analysis that we've got to get done.

I think the good news is it certainly does signal that there's more to come. And again, for those of you have been around ICE for a while, I mean, that's typically the case. I can't think of a year where we haven't gone out and found new ways to find additional profit for our shareholders.

Alex Kramm
Analyst, UBS Securities LLC
Q

Great. So then maybe just turning to the other side because, obviously, the expenses you can control to some degree – or to a high degree, it seems. The other thing that obviously has been a headwind this year has been the volume environment. And I think definitely some frustration on the part of a lot of investors that activity has been a lot lower than expected.

So, obviously, you don't have that in your hand but maybe you can talk about the business a little bit in terms of where do you still see underlying growth, why do you think there are areas of weakness, in particular, when you think about the macro challenges that when we read headlines, right, like banks exiting commodities business.

Yesterday I think there was one of 2another European bank announced that they are exiting the interest rate business. So [ph] think (7:55) businesses of banks are struggling, right? Luckily, the home team is already out for the most part. So that doesn't send a great macroenvironment for when I look at the exchange space. You're almost the service provider or toll booth for the bigger boys, right? So, how can we still get comfortable that this is an underlying growth business?

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

The way we get comfortable is we look at open interest trends. We look at the number of people log into our system every day. We look at the number of people who want new user IDs to get into our system. And the level of interest in the commodities market is un-subsided. There's no question that volatility in natural gas after January and February was very low. There's no question that a lot of firms in January and February either made their year or were busted for the year, and so that's hurt trading as you've kind of gone through. Oil has been kind of price range bound and with low volatility, but that notwithstanding, Brent OI's at record levels.

And we've seen historically, if you look back at our ag markets 24 months to 30 months ago, your volumes were soft, that OI was starting to build. And we said, hey, that's what matters is OIs building. Sure enough, as you get volatility, the ag markets were great in the first quarter.

And I think the other thing that seems to be a little bit lost in the equation is even in a world where energy is in a low-volatility environment and a little bit price range bound with low volume, we still grew revenue. So we grew revenues on a pro forma basis 4% year-over-year. We said we were going to generate $100 million to $140 million incremental revenue. This year we did $30 million in the first quarter. So I think that's the strength of the diverse model that we built, if even in a world where energy isn't performing where we would expect it to over the medium to longer term, the overall business was still able to generate growth. And with the additional cost takeouts that we're doing, 4% top line turned into 16% bottom line.

So we feel good about the quarter we put up. We feel good about the revenue that was generated. We feel good about ags and CDS and the sterling and those products. But there is no question that we also believe there are fundamental reasons why the rest of the business will grow. The European economy is getting better, and that ultimately will help our European rates complex. Oil OIs, the Brent OI is at record levels as I indicated. Volatility comes back, that will be good for volume.

And natural gas, I think lost on a lot of people is our U.S. nat gas volumes were down year-to-year, but our overall nat gas revenues were up, and that's because European natural gas performed really well. And we've said for a long time that we believe it's important for us to be the company that aggregates up the commercial natural gas business in Europe because, over time, natural gas is going to globalize.

And with us positioned as the provider to the commercials in the U.S. and aggregating up the European market and then making the investments that we're making in Singapore, we think as that happens, we're the natural winner in that space as well. So, we like the business in the first quarter. We like the opportunities in front of us.

Alex Kramm
Analyst, UBS Securities LLC
Q

Great. We'll come back to volumes probably in a minute. But the next topic, obviously, on people's mind is the Euronext IPO. You said, I think, second quarter, so maybe if you can give us an update on timing there. I think you've done some pre-marketing. So maybe talk a little bit of the interest level that you've seen, what should investors focus on, what can you do with the cash post-deal, depending on the deal size, how quickly do you think you can de-lever?

And then lastly – sorry; it's a lot of questions – but how do you think longer term about U.S. versus European cash and how you're going to put that to work in terms of buying back stock versus doing something else with foreign cash generation?

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

A

Okay. Again, there's a lot embedded in that, so let me know if I don't hit some of it. So, first of all, we're still on track for the second quarter to get the Euronext IPO done. As we mentioned on the earnings call, the one thing – we don't hold the pin, and so we do have to ultimately get final sign-offs from the regulators, the College of Regulators and the local ministries of finance.

We've got a very good dialogue going on with those regulators and feel very good about where we are in the process. All the typical things of the IPO: we've written a prospectus; we've put together analyst presentations; we've done, as you said, a little bit of pre-marketing.

And so I think that the good news for us is it feels like we're selling into a pretty good environment. There's a lot of investor demand because local kind of nationalistic demand that's related to getting a European exchange champion back. There's interest because I think the overall Euronext model, which will pay a strong dividend, will be able to grow a little bit on the top line as you saw in the first quarter, has committed €60 million of cost takeout, I think it's a strong financial story.

And I think we're selling it into the backdrop of an improving Europe. I'm sure a lot of you are more exposed to Europe than I am, although probably not recently. But the sentiment there is pretty good right now. People feel as good as they have in a while about the prospects in Europe. They feel like the second half should get a little better than the first, that 2015 should get a little bit better than 2014.

And so the demand's good on a number of levels. The market itself feels good. And so I think it really then gets down to, at the moment the IPO happens, what is the total level of demand and what's the price at which we can sell, which kind of segues into the other part of your question, which is, we've said all along that we need to get to 1.5 times levered. That means I've got to pay down about $2 billion of debt. We could do that out of free cash flow as easily by the end of next year, which is what we said consistently.

The Euronext yield could obviously help accelerate that. And particularly in a world where our stock got hit after what we felt like was a solid first quarter and I wasn't able to go into the market and buy back shares, we're definitely motivated to get the cash, to get de-levered and to get back into the market and be able to buy back shares and continue to do what we're doing and invest in the business.

Don't have any concerns at all in terms of being able to get the cash back home. I think the one thing that we are looking at is – a primary part of the debt we've got is not due until 2015, and so our expectation is we'll either look at prepaying that, or if that looks too expensive to us, then we would talk to the ratings agencies about giving us a net debt treatment on the amount of cash and just commit that whatever we brought home, we would keep that aside. And I suspect they would reasonably object to that, although that's still to be confirmed with them.

Alex Kramm
Analyst, UBS Securities LLC

Q

Great. And then maybe just lastly from me and then let's turn it over to the audience. So if we have mics going on, I guess let's get ready for that. But one topic that obviously is always front and center in the exchange rates or in financials in general but also has hit your stock a couple of times this year already is regulations. So a couple of items that have impacted stocks, [ph] Method II and hyper (15:13) trading obviously has been the topic.

So any new updates or anything you want to get out there from your – you did a great job on the hyperconcentrating side and market structure on the call. But anything else that you would want to flag?

And then maybe outside of those two items, anything else that we should be thinking about? Any other regulatory items on the horizon or things that we haven't been focused on as much anymore?

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

A

Yeah. So, no, I think those are the kind of the two primary ones. There's still some elements of regulation in the U.S. like mandatory trading around single names and CDS that we're still looking to have happen, but I think you touched on it, too.

Look, with regard to Method II, there's not a lot new. For those of you who aren't familiar with it, what they're in is a process similar to the Dodd-Frank that came along in 2010, but then the regulators had to go to actually writing down the rules to align with Dodd-Frank and they're still working their way through that process.

Method II is in that same process. So Method II has been written down, but they're now going through what they call Level II which is the writing of the rules and what specifically they – what the rule or the law mean. In particular embedded in your question is what is open access. That's the one that, as you said, the headline hurt the stock a little bit. And I think that's to be determined is what is open access.

I think the thing that is possibly lost on some people, we already operate an open access clearinghouse for CDS. We take trades that are blocked into our clearinghouse in the energy markets that are traded on platforms away.

So the law specifically precluded fungibility. And so, ultimately, our view is open access is effectively other platforms that want to avail themselves of the clearing services we provide can show up and pay us money to provide them with services. And I think that's not dissimilar than the way we view this regulation more generally, which is the regulation is do more on transparent exchanges, put more in clearinghouses and do more in trade repositories, which is the business model we've built over the last 15 years.

Alex Kramm
Analyst, UBS Securities LLC

Q

And then on HFT [indiscernible] (17:23)

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

A

Oh, yeah. The HFT, there's not a lot to add to what we said on the earnings call. I think overall, we feel like we bought the New York Stock Exchange at the exact perfect moment in time because of all the market structure discussions that are going on. And the Michael Lewis book got the attention around HFTs, but I think it's – the discussion is not just around HFTs. It's around HFTs, it's around whether or not 40% of trading should happen in dark markets. It's around whether a single penny tick is sufficient for every stock. All of that's happening – it's ordered – we said on the call that we're pulling back on some order types that exist in the market, that we're not going to be looking to create new order types because we just think that adds unneeded complexity into the market.

So at the moment in time, we're – in our obviously biased opinion, we have the most global cash equities exchange in the world and the best brand in the U.S. We feel like – and a reputation, by the way, of finding ways to create shareholder value through market structure improvement. I mean, that's the moment in time the cash equities market has entered. And we're in very close dialogue with the market participants, with the regulators. And we think that over time that the changes are likely to accrue to our benefit.

Alex Kramm Q
Analyst, UBS Securities LLC

Great. So with that, why don't we – with 20 minutes or so left, why don't we start with the audience? If there's any questions, please raise your hands, I guess. I think over there.

Alex Kramm Q
Analyst, UBS Securities LLC

Just maybe following up on that last point you were making. With regard to just changes in equity market structure, can you maybe elaborate a little on how ICE would benefit from a change in market structure? Meaning, are there risks of changing market structure or do you think volume, and what would be the offset for ICE? So just maybe put a little meat around that last part.

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

I think – our view is that there are – as one example, a trade that comes through to the lit exchange now can be routed over to the dark pool and be executed with no price improvement. And it doesn't make sense that you would have a trade that routes into a dark market with no price improvement. And so either there needs to be a change that says that if a trade is going to be routed away, there ought to be some price improvement that's required, or it stays at the lit exchange where the trade was first put forward.

That's an example, where I think you would either put a burden on the dark platforms to provide some price improvement, which would be better for the market, or that the execution stays on the lit exchange which is where it originated. I think that's one example.

I also think that if you look at – just generally speaking, and I think we talked about this a little bit on the earnings call, but there's a whole generation of people right now that, if you ask them, don't have any confidence in the cash equities markets, and so they're not investing in stocks.

And I think to the extent we can help generate more confidence, get people to believe that the markets are, as I think the book implies, rigged, which we obviously don't think they are, that as more money comes back in, the New York Stock Exchange is going to benefit. And it's going to benefit based on its brand. It's going to benefit based on the great companies that are listed at the New York Stock Exchange.

And so, those are just a couple of examples of why we think, ultimately, we'd be a net beneficiary of some of the changes that are being discussed.

Alex Kramm
Analyst, UBS Securities LLC

Q

Right in front here.

Alex Kramm
Analyst, UBS Securities LLC

Q

Hi. Just on the idea of the banks letting people go and then you guys are talking about, well, we see the users popping up elsewhere. Is there any way for us to think about, as we model that or look at that, the value to ICE of a guy or woman sort of one sitting on investment banking trading desk and then going somewhere else in terms of either ancillary fees or just the feed structure? If that becomes a higher volume – a higher number situation, so even if the numbers stay the same, is the value different?

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

A

So as some of the banks start to back away from some of their commodity exposures and it lands at a Mercuria or an Archer Daniels, does that really change the economics? Not really. I mean, we've seen not dissimilar transitions before, if you go back to the financial crisis of 2008 and 2009 and you saw some of the pullbacks at some of the financial institutions. Those trading desks tended to land at another commercial customer or they tended to land at a hedge fund or someplace else.

I think the more interesting part of this transition, and this is something that I really didn't understand until I joined ICE, is a lot of the financial institutions were actually very large owners of physical commodities. And so this transition is different than the other one because it wasn't necessarily just trading desk, but it's physical operations that are moving. And that's real physical commodities that have real price risk that needs to be managed.

And so, interestingly, you're seeing that real physical supply again picked up like companies like Mercuria and Rosneft and Archer Daniels and companies like that who every day, at least from my standpoint, each day you kind of see one that says this bank is going to back a little bit away from the physical commodity exposure. You see a commercial customer that says, you know what, we're going to go and invest more in that space.

And so, the overall economics don't really change. The customer set shifts a little bit as it moves from one place to the other. But overall, we don't see a market shift in the economics and really haven't even seen any great pause in the volumes or revenues related to that, at least as we view it.

Alex Kramm
Analyst, UBS Securities LLC

Q

One here.

Alex Kramm
Analyst, UBS Securities LLC

Q

On your balance sheet, you have about two-thirds of the assets are the margin guarantees, and they're exactly the same number as the liabilities, and that refers to your clearing business. Can you discuss your clearing business and also if it's satisfactory to just clear once a day to stop any contagion from Europe to the U.S. to Asia?

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

Yeah. So the assets and liabilities are simply reflective of the fact that we hold margin on behalf of trades. But as those trades are unwound, those margin moneys are handed back to the customers. And so you'll see two things in our financial disclosures.

One is on the balance sheet, which is effectively and simplified the cash we hold as margin because we actually hold that in our bank account. In the Qs and the Ks, you'd see a disclosure around the Treasuries and other types of collateral we don't take ownership, but, again, it's the same kind of thing. We hold it as an asset because it's in our account. We hold it as a liability because it's due back to that customer. So that's very typical of anyone who runs a clearinghouse.

I think the second part of your question is really important. We don't think that running the clearing cycle once a day is sufficient. And in each of our clearinghouses, we have a risk system that constantly monitors risk throughout the day, and we have in our rule sets the ability to go and margin people intraday if we notice that the risk exposures breach certain levels that we monitor.

And we run a clearinghouse in Europe. We're building now one in Singapore. We run a couple in the U.S., and we think it's very important that you monitor the risk throughout the day, that you're constantly re-evaluating the risk of the positions that people have, and that you have the ability to seamlessly increase margin when necessary to compensate for any changes in risk you see.

Alex Kramm
Analyst, UBS Securities LLC
Q

Europe is obviously a very important market. Can you comment on the size and competitive nature of Liffe and ICE versus CME and Europe?

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

Yeah. So, Europe is a very important market and you've got – in the CME, I would say they're an emerging presence in Europe right now. [ph] Eurex (26:19) clearly an established presence particularly in the interest rate business, which is where Liffe compete. And then you also have – I don't think it was in your question, but LCH is another important clearinghouse that's in Europe who predominantly focuses now on more of the OTC rates.

And I think Europe is going to be a pretty interesting competitive situation as you go out over the next year or two or three. As you may have noticed recently, ICE has launched some products that compete with Deutsche Borse's offerings. I think the market in general -- the CME's doing it in the U.S. and we're working on it, and Europe is looking at whether or not OTC interest rate trading and clearing is likely to stay in the OTC form or if it will transition to something that's more futures-like that people refer it to as a swap future product.

And so, I think ultimately what's going to matter to customers in those markets is where do I have the most secure risk management system that gives me the most capital-efficient answer. And that's why what you've seen us focus on in our European clearinghouse is continuing to expand the range of products that we offer. Because if you've got one portion of your interest rate portfolio that sits with ICE and another portion that sits with EURX and another portion that sits with LCH, all three of us, by definition, are margining you only on what we see. And if ultimately across your interest rate portfolio you've got a relatively flat position, if you had that in one place, the capital efficiency for you would be much better off.

And again, it's not easy to do. OTC interest rates are margined on a five-day basis. Futures interest rates are on a one- or a two-day basis. And so trying to find the best economic offset among those different margining constructs is a challenge. But it's a challenge of technology. It's a challenge of risk management systems. And we think that's a core competency for us.

So I think you're right to highlight that as an emerging very competitive space in the next few years. It's one that we are now heavily invested in through the Liffe acquisition and one where we feel very good about our competitive position.

Alex Kramm
Analyst, UBS Securities LLC **Q**

To your point as well on that and having seen over the past call it four years a number of consolidating mergers that were announced but didn't close, do you envision that there may be another wave of that that may be focused on not only consolidating the trading side of the operations but also consolidating post-trade, which could have a net benefit for customers in terms of margin benefits and the like? Or do you think that things that stymied the mergers in this last round, whether it'd be political issues or competition issues, is that something that you think is going to trail on for some time to come?

Scott A. Hill
Chief Financial Officer & Senior Vice President, IntercontinentalExchange Group, Inc. **A**

That's a really good question. And I'll give you my best informed view, but it's as good as anybody else's. I think what hurt the acquisitions over the past few years were really cross-border issues. So it's the Germans and the U.S. getting together. It was – Singapore and Australia trying to get together. And you ran into these nationalistic issues.

And so I think those issues are still likely to exist. I mean, I look at just the challenges of trying to get the regulators in the various countries to work together and come to some common agreement on a margining structure and some of the different rules. And I think you would run into some of those same challenges through cross-border consolidation.

That notwithstanding, I do think there is opportunity in – I look at a Europe landscape that's still pretty fragmented. If you look at the number of exchanges and clearing operations in Europe, I think that's an area where some consolidation is still very possible.

Asia is – I've lived in Japan for a long time. Asia is not a single thing, and so you have to really look at it as a bit more disaggregated in that. I think Japan is a bit isolated, but I think everybody's trying to figure out what's the nexus into the China markets and is there some consolidation that can happen, like Hong Kong going after the LME. Can it get to an important commodity, do a cross-border deal, which did work in that instance, and set itself up as an opportunity into China.

We're doing a similar thing in the investment we made in Singapore. That's a not a big merger, per se, but via an acquisition, we effectively bought an Asian-based clearing license and an exchange license. And we did that because we do think there are a set of customers in Asia who are looking at the evolving regulatory landscape and are saying, you know what, I don't want to be in the U.S. or I don't want to be in Europe. I'd prefer to stay here in Asia. And we think doing it in Singapore could make sense for them. We're doing a similar thing with our investments down in Brazil.

And so, I do think there are areas where consolidation can happen. I think Europe is the most obvious place. But I also do think there are opportunities to invest in different places around the globe either organically or through some acquisitions like we did with Singapore to try and get us the market opportunities that I think exist.

Alex Kramm
Analyst, UBS Securities LLC

Q

Right up front here.

Alex Kramm
Analyst, UBS Securities LLC

Q

Thanks. I was wondering if you could comment on some of the megatrends we're seeing and things that really excite you and provide opportunity for the business. For example, liquid natural gas is something that, when it comes to fruition, would be a clear benefit to you. What are some of the other things that you look at and you want to play on?

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

A

Yeah. You tipped my favorite ones. I do think the globalization of natural gas is a big opportunity for us. There clearly are going to be politics involved with regards to how much are we able to export and all of that. But I do think you can see the natural gas market setting up to become more global. And I think that's a big opportunity for us. I think we're well-positioned.

I think there's a big opportunity for us in the rate space because, again, what we have now is really the Euribor and the sterling, and I think there's a much broader European set of rate products that we have an opportunity to compete for. A new initiative that we've launched with a guy called Finbarr Hutcheson, who ran Liffe and now runs our LIBOR business, I think that could be a really interesting business for us over the longer term because I think we can deploy technology that will help establish a LIBOR benchmark that has a much greater confidence level that is true today. And I think if we're able to do that, it will mean the benchmark will be more used, which will make it more valuable, which we'll benefit from.

But then I also think we can deploy that capability and those technologies into other similar type of benchmarks. So we just announced the ISDAFIX, for example, as one that we're working on. And so I think that's an area that could be exciting for us.

I'm really happy about the CDS investments that we've made. If you looked at the first quarter results, they were very, very solid. And I'm reading a lot now and, again, many of you may more likely know this far better than me, but a lot of people are struggling to get exposure to credit. And the supply of bonds and their ability to go and take a position in a company's credit is challenged.

And so, as people look around and think what's another way for me to get exposed to credit, CDS is a way to do that. And we're seeing that. If I look at our brokerage, our Creditex brokerage business, where we're seeing a decent amount of volume for change is really in our single name business.

And so, I'm excited about our presence in the credit space via CDS, and I think that's another area where we can continue to grow. I talked a little bit about Singapore. I think that's an area that – where we can continue to grow.

And so, kind of overall, I'm excited because I think there are a number of growth catalysts that are out in front of us in all these different areas, some that could be immediately large, some that will build over two or three or four years. And all of those growth opportunities are going to be delivered on top of a cost base that's still got another $280 million or more to come out of it in the next couple of years.

Alex Kramm
Analyst, UBS Securities LLC
Q

Over here.

Alex Kramm
Analyst, UBS Securities LLC
Q

As you go forward the synergies and cost-cutting at NYSE, is it your intention to keep a hybrid model between technology and people?

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

Yes.

Alex Kramm
Analyst, UBS Securities LLC
Q

And just – when Mary is dealing with the regulatory scheme that's going on, is she dealing more with the CFTC than the SEC or you don't know at this point? Do you have someone who's in charge of when it comes to regulation, one of your general counsels?

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

Oh, okay. Yeah. When you said Mary, I didn't know which Mary.

Alex Kramm
Analyst, UBS Securities LLC
Q

Oh, I'm sorry.

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

Okay.

Alex Kramm
Analyst, UBS Securities LLC
Q

I didn't know how to pronounce her last name.

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

No, she's – that's fine. Mary is largely with the SEC. So if the CFTC really is a – the SEC is a relatively new relationship for ICE, although we had begun to build it around our CDS business. But the reg business that Mary runs for us deals with the SEC, and then the CFTC relationship is one that primarily rests with our existing ICE counsel.

Alex Kramm
Analyst, UBS Securities LLC

Q

Let me just jump in again for a second. I think one thing we haven't got an update on so far is the tech business. I think you're very excited about – not excited but obviously sizing it down. So I think some of us expected some asset sales already by now and we haven't really heard much. So where are the sticking points? And if there's nothing materializing, I mean, are there still a lot of businesses you would just shut down or reform, or what are the plans in that business? And maybe size it up a little bit for us.

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

A

In fairness, we couldn't sell them until we own them. So we've only owned them for now about six months. So I think we've been pretty clear with regards to – Alex referring to what was formerly known as the [ph] NYFT (37:07) business which had two or three really big – it had a network component to it and a data component to it, which is a part of the exchange, and that's a part that we'll retain. It had the data centers which we'll retain.

But then it had some interesting kind of technology coming is Wombat, NYFIX or a couple of the bigger ones. And so we didn't announce this as we were going through the deal to look at, are those good strategic fits for us.

And some of the businesses weren't a good strategic fit for us and, really, we didn't think would be that attractive externally and we'd shut them down. But Wombat, NYFIX, et cetera, we kicked the process up earlier this year to get those sold. There was a very strong interest in those assets. They're good assets. It just they weren't a strategic fit for us. And so we're working our way through that process. My expectation is this summer that we'll be able to close that out. But as you saw in our financials, the businesses we shut down, the businesses we've spun off are all a part of the disc ops just to give investors clarity as to what is ICE post those transactions.

Alex Kramm
Analyst, UBS Securities LLC

Q

But obviously, it's incremental cash that you would love to use for something else, right?

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

A

Absolutely. Yes.

Alex Kramm
Analyst, UBS Securities LLC

Q

Maybe just coming back to – I think there was a question earlier on some of the European opportunities and you talked about competition a little bit. But I think that gets into the whole idea of this is a deal that I think some of us expect actual revenue synergies, which we haven't seen often in M&A land in the exchange space.

But outside of maybe some of the things at Liffe, and maybe you can go on to more detail than you just did a couple questions ago, but are there other areas where you see like, hey, this is actually something that we picked up now that we can combine with something new or something that we've already had and take it to a different level where, separately, there just wasn't the opportunity set?

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

A

Well, I think the biggest part of it is what I talked about, which is the rates, right? And Liffe had not been able to launch it or had not launched a new product in a number of years and, again, that largely had less to do with Liffe than it did with its clearing partner. But we've immediately launched new interest rate products, new equity derivatives products. I think you look at the MSCI and the FTSE complex to go along with the Russell complex we've got, I think that's really interesting for us.

I think if you look at their ag products, much smaller than ours, but I think it rounds out kind of our ags. There's two different types of coffee and a different kind of sugar. But that notwithstanding, it makes us more interesting. It's a single platform for our customers.

And one of the things we've noticed in past deals is if we've got a customer that trades our sugar and now, all of a sudden, we put a new sugar up on the screen and it's right there for them to trade, they tend to trade it. And maybe they traded it a little bit before, but would you rather log in to one exchange or two exchanges to get it done? And so, I think there are a number of synergies across not just the Liffe interest rates but equity derivatives, the ag product as well, that we will see as we move forward.

Alex Kramm Q
Analyst, UBS Securities LLC

Okay. Maybe one last question in the room? Otherwise, I will just have one more quick one. Maybe topical today, but there's some news around the Russell index business trading and trading to a potentially an exchange competitor but also partner to some degree. So you do have an agreement on the Russell side right now. Do you think that will change anything if that business trades? Would that have been better to go to like one of the pure-play index providers, or do you not see it changing anything?

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

I mean, I think the fair answer is we don't know. We've got a contract through 2017. And I think LSE and Xavier have historically – and I don't know if it was a quote attributed to him or an actual quote on an article today. They've looked at the IP as an opportunity for them to license and earn an annuity related to it, which is not dissimilar than the deal we did with Russell. And so, my expectation is that nothing changes dramatically. I mean, the certainty is that nothing changes until 2017.

Unverified Participant

Great. Well, unless there's anything in the room, please join me thanking Scott to be here.

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

Thank you.