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Intercontinental Exchange, Inc. (ICE)

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the IntercontinentalExchange First Quarter 2014 Earnings Conference Call and Webcast. All participants will be in a listen-only mode. After today's presentation there will be an opportunity to ask questions. [Operator Instructions] Please note this event is being recorded.

Now I'd like to turn the conference over to Kelly Loeffler. Please go ahead.

Kelly L. Loeffler

SVP-Corporate Communications, Marketing & Investor Relations, IntercontinentalExchange, Inc.

Good morning. ICE's first 2014 earnings release and presentation can be found in the Investors section of our website at theice.com. These items will be archived and our call will be available for replay.

Today's call may contain forward-looking statements. These statements, which we undertake no obligation to update, represent our current judgment and are subject to risks, assumptions and uncertainties. For a description of the risks that could cause our results to differ materially from those described in forward-looking statements, please refer to the company's Form 10-K.

Please note that in addition to the GAAP results presented today, we've also referred to our adjusted operating results. These measures adjust our GAAP results for various extraordinary items, including our acquisition of NYSE Euronext and we believe are more reflective of our core business performance than our GAAP results. You'll find a non-GAAP reconciliation in the earnings release and presentation and explanation of why we deem this information to be meaningful as well as how management uses these measures. Net revenue refers to revenue net of transaction-based expenses.

With us on the call today are Jeff Sprecher, Chairman and CEO; Scott Hill, Chief Financial Officer; and Chuck Vice, President and Chief Operating Officer.

I'll now turn the call over to Scott.

Scott A. Hill

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

Thank you, Kelly. Good morning everyone and thank you for joining us today. I'll begin on slide four where we highlight our record results in the significant progress we've made during the quarter. Consolidated net revenues totaled $932 million including strong contributions across our transaction, clearing and data businesses. We believe this performance demonstrates the value of the diversification of our global products and market particularly in light of the muted volumes in certain energy and interest rate markets.

We continue to focus on disciplined expense management and have now achieved over $220 million in synergies, double where we were in the fourth quarter, and well on track to the achievement of our stated objectives. And as a result of our strong revenue and expense performance, we delivered double-digit earnings growth with adjusted diluted earnings per share of $2.60, up 28%.

Through the first four months of 2014, we continue to make good progress on our integration and restructuring plans, including the planned IPO of Euronext and NYXT divestitures, along with the integration of Liffe into ICE Futures Europe.

Even as we work on reorganizing and integrating NYSE Euronext, we remained focused on establishing new opportunities for future growth. We continued to expand our product offerings during the first quarter. And in February, we completed the acquisition of the Singapore Mercantile Exchange and Clearinghouse which we renamed to Ice Future Singapore and Ice Clear Singapore. As you can see, it's been a busy and productive start to 2014.

Please now turn to slide five, where I'll detail our first quarter results. Consolidated net revenues of $932 million benefited from strength across our agricultural emission and refined oil products, U.S. equity options, Euronext cash trading and CDS clearing. This revenue performance reflects growth of 1% compared to pro forma first quarter 2013 results.

Further adjusting the prior-year pro forma results to reflect the businesses now being reported as discontinued operations, would have yielded revenue growth of 4% year-over-year. Adjusted operating expenses were $463 million and our consolidated adjusted operating margin was 50%. This is a notable improvement from the 45% pro forma operating margin we showed you on our November 19 Strategic and Financial Update call.

Adjusted operating expenses actually came in better than our guidance due to a number of one-off benefits which were partially offset the negative currency impact in the other expense line. Our first quarter expenses, excluding the one-off benefits, would have landed in the lower end of our guidance range and operating margins still would have been a solid 49%.

Our tax rate for the first quarter was 28%. Adjusted net income attributable to ICE grew 14% on a pro forma basis to $301 million and adjusted EPS were $2.60 per share. And importantly, operating cash flows were $519 million which is up 16% versus the combined operating cash flows of the two companies in the first quarter of 2013.

And while you can't extrapolate first quarter cash flows to the full year due to annual listings, billings and bonus payments, the first quarter results clearly demonstrate our ability to generate strong cash flow. This cash generation will enable us to delever, repurchase shares and continue to invest in future growth, including investments and operational capital expenditures and capitalized software, which were $49 million in the quarter.

Let's move to slide six where we detail revenues and expenses for the ICE segment. On the left side of the chart, you can see that ICE segment revenues were $796 million with nearly $500 million coming from net transaction and clearing revenues. Market data revenues were $103 million including record revenue from ICE data. NYSE listings generated $82 million in revenue and other revenue contributed $114 million in the first quarter.

On the right side of the chart, you can see ICE segment expenses. First quarter adjusted expenses were $382 million and adjusted operating margin was 52%. As I mentioned previously, we had roughly $8 million in one-off, non-cash compensation and tax accrual benefits in the first quarter. Even adjusting for those benefits and including an anticipated increase in our second quarter performance-based compensation due to the timing of grants in 2014, the ICE segment operating margin still would've been around 51%.

Now let's turn to slide seven where I'll discuss the Euronext segment, which delivered a strong start to 2014. Net revenues for the first quarter were $136 million with 44% from cash trading, 22% from market data and 13% from derivatives trading. This performance was driven by solid volume growth and cash equities where ADV increased 16% year-over-year and was amplified by a 7% increase in revenue capture versus the prior quarter. While

Euronext derivatives volumes decreased slightly, revenue capture actually increased. Euronext operating margin was 41% and net income was $36 million for the first quarter of 2014.

And importantly, the strong financial metrics do not yet reflect either the clearing economics Euronext began earning in April or the $60 million Euronext cost synergies the Euronext management team expects to deliver over the next three years.

As a leading pan-European equities and derivatives platform in Europe, Euronext is led by a strong management team, produces strong cash flows and has low capital requirements. We continue to see a gradual improvement of the European economy and anticipate that this will enable Euronext to build upon the solid performance we saw in the first quarter.

Moving on to slide eight, I'll discuss our derivatives revenue and volumes in greater detail. Total futures and options revenue including net revenue for U.S. equity options for the first quarter was $357 million. Notably, while volume trends were soft across energy and financials, we delivered revenue growth year-to-year in our derivatives business as a result of the addition of clearing for interest rate, a favorable mix in energy and interest rate contracts and solid revenue growth in our agriculture products.

Daily volumes for futures and options in the quarter were 6.6 million contracts, a decrease of 13% year-to-year. However, daily volumes across ag and emission contracts were both up double-digits year-to-year. Our ag revenues in the first quarter were $54 million, up 25% over last year's first quarter, due mainly to weather affecting crops in Brazil and price volatility across sugar, cocoa and coffee.

The volume strength in ags and emissions was offset by decreases in volume driven by low levels of volatility in our Brent Gasoil in North American natural gas markets. However, despite the volume declines in natural gas, thanks to the strong performance in our European natural gas market, overall nat gas revenues actually increased slightly versus the prior year. And while the ICE gasoil futures contract volumes continue to be impacted by the transition to the low sulfur contract specification, the transition will be completed at the end of May which should help volumes return to more normalized levels.

Interest rate futures volumes declined in the first quarter as absolute rates remained low, particularly in EURIBOR. Despite lower overall volume, interest rates contributed $80 million in revenue in the quarter which includes clearing revenues that were not included in last year's first quarter due to third-party clearing arrangements.

Before leaving this slide, I want to note that although we have seen softer volumes in some of our benchmark energy contracts, open interest trends remain healthy. As we close the first quarter, we saw record open interest across many of our benchmark contracts, including Brent and ag, which were up 16 and 14%, respectively, from the end of 2013. And as we've seen before, once volatility and seasonal activity returns, healthy open interest levels generally translate into volume growth.

Next on slide nine, I'll update you on our CDS business. We reported CDS revenues of $43 million in the first quarter, driven by record clearing revenues of $26 million, which were up 64% compared to the prior first quarter. We believe that market participants see the value of clearing CDS on the ICE clearing platform due to the investments we've made which ensure that we have the most comprehensive, global offering and risk framework.

In March, we launched clearing for Markit iTraxx Senior Financials CDS Index instrument and two weeks ago, ICE Clear Europe began clearing Western European Sovereign CDS.

Moving onto slide 10, I'll talk about our strong cash generation and capital management. We closed the quarter with over $1 billion in unrestricted cash and short-term investments and we generated operating cash flow of $519 million, up 16% from the prior year. We expect to continue to generate strong cash flows from operations as well as from the Euronext IPO and the divestiture of certain NYSE technologies businesses. We intend to use this cash flow to delever to our adjusted debt to EBITDA target of 1.5 times, continue investing for growth, and resume our share buyback program. We remain focused on delivering returns on investment that are above our cost of capital and better than our peers. And we declared our intention to pay a $0.65 per share dividend again in the second quarter.

Finally, during the quarter, we worked to further optimize our debt structure. On April 3, we entered into a new five-year $3 billion unsecured revolving credit facility and used our commercial paper to pay down our $367 million term loan. For the balance of 2014, we expect quarterly interest expense in the range of $24 million to $25 million, which is lower than our prior guidance.

Let's move to slide 11 where we've highlighted a few items to clarify financial reporting questions. I won't walk through the entire slide, but will touch briefly on the ICE segment other revenue, which was $114 million in the first quarter. There are several revenue streams that comprise this line item such as technology services, trading license fees, and regulatory and listed company service fees, among others.

As part of the integration process, we have now moved the Liffe clearing fees out of other revenues and into transaction and clearing revenues for the first quarter. Previously, Liffe clearing revenues were reported in the other revenue line rather than transaction and clearing revenue. As you would expect, this resulted in our reported first quarter RPC being understated for ags, metals and financials. Therefore, on this slide, we updated RPC to include clearing. This is also reflected in our April volume release and has no impact to total revenues.

I'll conclude my remarks on slide 12 with an update to our current guidance. Please note that our guidance includes Euronext and excludes non-strategic NYSE technologies businesses that are reported in discontinued operations.

For the second quarter 2014, we expect that other revenues will be in the range of $120 million to $130 million. Adjusted consolidated operating expenses for the second quarter are expected to be between $485 million to $495 million. The increase in second quarter expense guidance versus that provided in the first quarter is due to roughly $15 million in additional expenses in the Euronext business. This is primarily driven by $3 million to $4 million related to investments required to operate Euronext on a standalone basis and $9 million to $10 million related to Euronext's new derivatives clearing arrangement which began on April 1. Notably, that clearing arrangement is also expected to generate $16 million to $17 million of incremental revenue in the second quarter, assuming volumes are similar to the first quarter.

For the ICE segment, adjusted for the one-off items noted previously, we expect adjusted operating expenses to be relatively stable in the range of $390 million $400 million for the second quarter. And for the full year 2014, we expect adjusted operating expenses of $1.56 billion to $1.58 billion. Importantly, we are on course to achieve 70% of our synergies or $350 million as we exit 2014.

For the second quarter of 2014, we expect capital expenditures and capitalized software of $60 million to $65 million, and for the year, we will invest $200 million to $210 million excluding real estate expenditures. This figure is higher than our previous CapEx guidance due to investments to standardize and increase the efficiency of our technology platform at the NYSE.

D&A expense for 2014 is expected to be between $360 million and $370 million, including $85 million to $90 million in the second quarter. Finally, we continue to expect an effective tax rate of between 27% and 30%.

We are well into the second quarter and are continuing to respond to our customers' needs through product innovation, risk management and compliance solutions. We're executing on our strategic initiatives and are well-positioned to continue to grow our revenues, achieve double-digit earnings growth and generate strong cash flows and value for our shareholders.

I'll be happy to take your questions during our Q&A session. Jeff, over to you.

Jeffrey C. Sprecher

Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

Thank you, Scott. That was a lot to digest. Today, I'd like to cover our energy and interest rate futures business, provide some thoughts on U.S. equity market structure and discuss the progress that we've made on integrating NYSE Euronext.

Over the long term, trading and risk management activities continue to move on exchange and into clearinghouses. While this trend was already underway and we began clearing energy swaps in 2002, it was only accelerated with the implementation of Dodd-Frank. With the EMIR implementation taking place in Europe over the next year, the trend towards clearing is also playing out there.

We're focused on meeting regulatory requirements and the demand for new products and capital efficiency. We're expanding our reach globally, most recently into Asia, to address the demand for market infrastructure. We believe that Asia will also implement financial reforms focused on enhancing risk management and supporting the development of regulated clearinghouses.

Shifts in the global economy are driving demand as the Pan Asian region moves to becoming the largest global consumer of commodities. With economic and regulatory change reshaping markets around the world, our geographic and product diversity across commodity and financial products and our ability to evolve as markets change, position us very well for the long-term.

You can see the breadth of our energy markets on slide 13, including the expansion of activity through economic cycles and through regulatory change. Since the beginning of the financial crisis in 2008, our energy revenues have grown at a compound rate of 13% annually; and this is consistent with ICE Futures Europe's 17 consecutive years of record volume. On the slide, you can see the strong base of revenue across a diversified mix of energy products, which are relied upon each day by global energy companies and consumers.

While financial reform has had the effect of pushing some banks to exit their physical commodities operation, we continue to see a strong role for banks as they facilitate customer business in these markets. And consistent with our focus on commercial end users, you can see in our commitment of trader reports that well over half of our open interest in energy is from commercial market participants.

Moving forward to slide 14, we've highlighted some of the trends underlying our global oil business. Brent crude volumes were softer in Q1 due to multiyear lows in price volatility with prices locked in a tight range. In addition, the forward pricing curve for Brent was in contango for the first quarter, while the WTI market stayed in backwardation. Nevertheless, open interest grew at a healthy clip and stands at record levels, as you can see with the green line on the left.

On the right side, you can see the over 80% compound annual growth rate in our suite of refined oil products. This demonstrates how the benchmark Brent contract has attracted customers who now trade a full range of refined oil products. Today, our oil contracts number over 400. In the second quarter, we expect to launch 64 new energy contracts, over 20 of which are oil products.

I'll also point out the contracts represented by the blue bars on the same chart represent products where our market share has grown from zero to over 13% in just a few years time. This represents meaningful capital efficiencies at the clearing level.

Moving to slide 15, you can see the trends in our global natural gas markets. While North American natural gas volumes have declined year-to-year during the past several quarters, average daily volume for the first quarter was 25% above the first quarter of 2010 and open interest has doubled and remains significantly above pre-crisis levels. This demonstrates solid growth in the user base and in demand for hedging. And while U.S. natural gas prices lack volatility in the last months, this is a solid business due to the increasingly important role that natural gas holds, both in North America and around the world.

On the right side of the slide, you can see the robust growth in our natural gas contracts traded on ICE Futures Europe, particularly following our acquisition and subsequent launch of the ICE Endex business last year. Through ICE Endex, we now list the primary European gas benchmarks, and the efficiencies of this model are driving growth. I've long spoken about our view of the increasing globalization of natural gas products, and this quarter you can see this trend in our results. As a result of the solid performance in the non-U.S. natural gas markets, ICE's total natural gas revenues actually increased 1% during the quarter, where European volume growth of 64% offset the double-digit decline in our North American volume.

Turning to interest rates on the next few charts, starting on slide 16, you can see the underlying trends in our Liffe interest rates complex. First, daily volumes have returned and in some cases exceeded pre-crisis levels. And this is despite a low interest rate environment impacting our benchmark short-term contract, the EURIBOR future. However, open interest across our European interest rate futures complex is up 21% from the start of this year.

On slide 17, you can see one of the primary drivers within the Liffe rates complex is the Sterling futures contract, where daily volumes grew 30% in the first quarter and open interest over 80% from year end. This contract is a proxy for U.K. economic sentiment and expectations for the Bank of England's actions on interest rates. With economic indicators improving, the short Sterling contract has been active.

On slide 18, you could see the diversity of our growing interest rate complex. Growth in our gilt futures volumes reflect the rising demand for rate hedging further out the yield curve, where we've grown volume and overt interest over two years.

Volume in the Swapnote contract, which was the first launched futures swap to futures interest rate product and now in its 13th year, was up 32% over last year's first quarter with open interest increasing double digits over the same period. Last month, we introduced the Ultra Long Gilt futures contract, which has attracted solid volume growth and open interest since our launch.

These products are not only performing well, but they'll be joined by 21 new European interest rate contracts that we're introducing this quarter. So you can see that we're very engaged in building out a leading European rates platform. In addition, our team is working to ensure a smooth transition of the Liffe markets to the ICE Futures platform by year end. We believe that this investment will create operational and capital efficiencies that will drive value for customers and for shareholders.

Moving now to slide 19, I want to note the strength of our listings business for two reasons. First, because the New York Stock Exchange continues to lead in the amount of capital raised as well as in technology IPOs as we move to the halfway point of 2014.

But more importantly, I want to talk about the importance of a healthy market for our issuers. It's vital that we continue to attract companies to the public markets because they trust the fairness and stability of these markets. The pie will grow for all if its investor confidence in markets is strong. The U.S. capital markets are the deepest, most liquid markets in the world for capital raising and they're a key source of competitiveness of our economy globally. Access to public capital fuels innovation and creates jobs for economies around the world. Issuers and investors need confidence that the markets are transparent and that they are fair. It's that trust and confidence that keeps the flywheel of capital flowing.

In this regard, let me address a few ideas around how we can improve the structure in our equity market. For the past year, I've suggested that this market can be simplified and that the pendulum has swung too far on complexity. While a year ago my comments were not widely supported within our industry, the current conversation has led to increasing support and an opportunity to dialogue in earnest on the important issues facing this industry.

You can see on slide 20 many of the developments that ICE brought to improve confidence in the commodity and derivative markets that we serve. It's important to note that this progress is a result of the extensive work with our customers and our regulators. And, as we bring our experience into derivatives, we'll continue to work closely with customers and regulators to drive positive change in the equity markets that we serve.

Many parties share responsibility for today's market model, including incumbent exchanges like the New York Stock Exchange. Most importantly, we in the industry must provide the leadership to respond to needed change. And we're encouraged by the SEC's work and recent comments acknowledging the need to address market complexity. Years ago, the market's reaction to a perceived lack of transparency and fairness was to create competition at the exchange level. Ultimately, this went further than most could've anticipated and this has led to extreme fragmentation, with over 50 venues to trade the same listed securities.

While a national market system linking these venues together is a worthy goal, it has resulted in an overly complex structure with many unintended consequences. Historically, markets naturally formed up in a single venue to establish liquidity and the best price discovery. Today's fragmentation of such standardized markets is unnatural for the ultimate end-user and it tends to be promoted by those who seek to benefit from access to better information.

With extreme fragmentation, buyers and sellers have no choice but to seek to form a single price discovery stream by employing smart order routers, algorithms and high-frequency strategies. And to maintain liquidity, you've seen the convergence of market makers and high-frequency trading firms with very little means to distinguish meritorious activity from that which can be disruptive.

What I believe is being lost in the evolution of the U.S. equity markets, is that the essential form of competition that we should be improving is that between the buyers and sellers of securities, both of whom are seeking to discover the best price for themselves. This means that the concept of competition should not be focused exclusively on creating more exchange venues, whose propagation continues with no end in sight. There seems to be no justification now that studies are showing that pricing benefits are being reversed and where the public price discovery function for end-users is being weakened.

It's certainly a positive fact that technology and automation has tightened bid-offer spreads. But the fragmentation and instability of the market today has also increased its risk and complexity. In a Monday article in USA Today, it comments "this week marks the fourth anniversary of the brutal flash crash that rocketed markets on May 6, 2010 and is a stark reminder of how little has changed".

Our market structure might have created a better pie with lower exchange fees and tighter spreads, but it is a shrinking pie that fewer want to consume. Americans are seeking other investments instead of providing the fuel to our listed companies.

It's also a positive fact that technology and competition in the U.S. equity markets dramatically reduced exchange fees and improved access. For example, a retail customer buying 100 shares of stock may pay $9.95 to an online broker, not $800 as in times past. Today, if that trade was routed to a U.S. regulated exchange, the revenue capture would average about $0.02. In other words, an amount that is insignificant to that total transaction. Only about $0.02 would go to an exchange on a $10 broker commission.

Similarly, a large institutional fund manager buying 100 shares of stock today would pay their broker something like a $1. The U.S. exchange capture is yet again about $0.02, similarly insignificant to this transaction and so low that it should not justify the existence of off-exchange trading as a need to avoid excessive exchange fees, particularly where there's an absence of meaningful price or size improvement. And by definition, the avoidance of transacting on a regulated exchange is also the avoidance of regulatory oversight and the removal of price signals that contribute to the public price formation process.

We've advocated for the regulatory elimination of maker-taker fees, coupled with a reduction and equalization of access fees in the U.S. equity markets. This would expose the low exchange capture fees that I just mentioned directly to all market participants. Maker-taker fees also create incentives for intermediaries to potentially place their own interests ahead of the obligation to customers.

And I believe that vast majority of brokers are honest actors who want to place their customer's interest first, but they're being put in an increasingly untenable position with regard to best execution requirements. And, in order to protect market participants for regulatory breaches and while availing themselves of maker-taker rebates, execution venues have further complicated markets by creating order types that play into maker-taker capture such as the well-named "hide don't slide" among others. The imbalance in maker-taker fees creates fee arbitrageurs that add to market volume while simply trying to buy on one exchange and sell on another in risk-free trades while not actually wanting to own stocks.

Encouraging transient liquidity signals is potentially as risky as encouraging transient price signals. Because traders not only rely on price information, they also rely on volume information when making trading decisions. The SEC has already placed limits on exchange fees and thus we believe that these limits could be updated to eliminate maker-taker pricing while equalizing exchange access fees at lower levels for all investors.

The New York Stock Exchange has a significant opportunity to offer solutions that rebuild confidence and protect shareholder value. And we believe that we can start by unilaterally reducing the excessive complexity that exists today, such as the proliferation of order types. Therefore, as a first step towards making our markets less complex, we will voluntarily reduce the number of order types at our U.S. equity exchanges. We've identified over one dozen existing order types that we plan to apply to the SEC for rule changes to eliminate. And beyond that, we will continue to evaluate our other order types to identify those that may not be providing the market with true utility.

Too many of these order types were developed in an attempt to replicate dark pool trading or to segment the market to try to attract one type of investor over another type of investor. The SEC has recently completed a comprehensive audit of order types and we believe that exchanges and dark pools should adopt a moratorium on creating any new types of orders.

We had a spirited internal debate on whether we should unilaterally begin eliminating order types and certainly there were some who did not initially like this idea. You see, we have a half a dozen or so more new order types that are in the works and some of them have already been built into our matching engines and are ready to launch. These new order types as smart, they are innovative, and some may really put the hurt on our competition. However, I suspect that they will further fragment the U.S. equities market which will ultimately hurt investors.

My colleagues worried that our competition won't share our end-user concerns and they'll continue to develop products that'll further fragment the market. If this is so, I reminded them it maybe we should be paying our competitors salaries because I believe they're setting themselves up for long-term failures. Today, the average order size on the five largest alternative trading venues has probably to a little more than 200 shares, an amount that is near or in some cases below the size of regulated market order fills.

As smart order routers are now slicing up orders into small digestible bites, today there is very little difference between retail order fills and large institutional order fills, increasingly obsoleting the need for trading venues to segment our customers or segment their trading behaviors by offering differing order types or by even having different regulatory oversight.

In light of a number of articles that I've recently seen, I want to also spend a moment to describe our market data offerings. Our U.S. equity exchanges produce and sell raw data feeds, which include every single quote and cancellation that is submitted to the matching engine. Pursuant to an agreement we have with the SEC, we make sure that our raw data feeds are not made available to customers any sooner than the data is made available to the National Securities Information Processors also known as SIPs.

So in another words, it's a rule that everyone receives the raw data feeds at the same time, including the SIPs. Now the major broker-dealers are co-located in our facilities and receive raw data fees at the same time as latency-sensitive traders. And unlike other regulated markets where ICE operates that allow for direct access, broker-dealers are the sole access point for customer trade execution on U.S. equity exchanges.

You and I as investors do not choose where our trades are routed to and we're not allowed to access U.S. equity exchanges directly. Therefore, as long as a co-located broker-dealer's interests are aligned with its customer's interests, retail and institutional customers of major broker-dealers should see no speed advantage and no speed disadvantage in these markets.

Now, some have called for us to further slow down the raw data feeds to match the output of the SIPS. But this would likely have exactly the opposite impact that its proponents are trying to achieve. Recall that traders currently receive their trade confirmations for matching engines at their native speeds. And active traders who are constantly buying and selling small numbers of shares, see stocks move through various price levels by employing this trading strategy. If the raw data were delayed to match the output of the SIPs, this would give active traders significantly earlier knowledge of stock movements, well before the public as a result of their active trade confirmations. This time advantage would be big enough to drive a truck through. That's why simply slowing down the raw data feed would only create more problems.

However, we do believe that there are a number of solutions that could be enacted to better ensure parity so long as they were adopted by the entire industry. We could slow the raw data fees or combine the raw data and the SIPs into single feed or use technology to further speed up the SIPs, but all of that would have to be done while simultaneously slowing trade confirmations including those from dark pool matching engines to eliminate all trade data information advantages. But again, such speed equivalence changes would need to be universally adopted for them to have any impact given today's fragmented market structure.

I'd like to talk about co-location and why it's important that it remains a regulated business. We believe that co-location is the most their way to serve both the latency and non-latency sensitive customers. Let me illustrate. ICE's commodities business uses third-party data centers to house our matching engines. And years ago, we began hearing of traders that were offering to pay our data center operator larger fees if they could move their systems closer to our matching engine.

We decided to work with our landlord to develop cable links and router configurations that were equal for everyone in the building who were trying to connect to us, regardless of where their specific location was in that building. Thus, it was out of a sense of preserving fair access that the co-location business was born. We continue to examine the co-location offerings at our data centers to make certain that their use is appropriate, codified and fair.

And finally, let me mention that the U.S. equity market simply has to look to its cousin, the U.S. equity options market, to adopt best practices and a good regulatory model. For example, off-exchange trading is allowed but those trade opportunities must be offered to others in regulated markets. Market makers have true price quoting obligations, and in return they receive fee discounts and additional messaging capacity. Exchanges have rules and fines to deter excessive orders from being sent and from being canceled. All of these features are very similar to what we've already implemented in our futures market and all of these features in the U.S. equity options markets are regulated.

Clearly, we've spent a lot of time during my tenure at ICE thinking about and solving for better market structures, whether it was the market for OTC energy, the market for credit default swaps or now the U.S. cash equities markets. And I believe that one of the things that ICE does well is to facilitate change for the better that help our markets to grow. And I'm really hopeful that our team can advance the dialogue here.

In the meantime, as we've discussed today we're busy executing on a range of initiatives that we now have listed on slide 21. Each of these is helping us to capitalize on the many opportunities to grow and serve our customers in an expanded way.

We closed on the NYSE's transaction just about six months ago and since then we've implemented a dividend, we've completed the acquisition of the Singapore Exchange and Clearinghouse and we've led in the global listings business. We completed several milestones related to the IPO of Euronext and the sale of some of our technology businesses while delivering on expense synergies and rolling out many, many new products.

We launched our benchmark administration business, covering now both LIBOR and the ISDA fixed indices. We began developing a new trading platform for our U.S. cash equities business and our equity option exchanges and we continue to transition the Liffe exchanges to ICE. We're not waiting for the business to come to us. We 're going to where our customers need us to be and we look forward to continuing to report to you on this progress.

I want to conclude my remarks by referring you to slide 22 and note that ICE's growth is consistent and we have found opportunity for growth amid change. We focus on our customer's needs every day and in doing so, we've been able to drive shareholder value. So I want to thank our customers for trusting us with their business and I want to thank our team for delivering these great results.

With that, I'll turn it over to the operator Emily for a Q&A session.

QUESTION AND ANSWER SECTION

Operator: Thank you. We'll now begin the question-and-answer session. [Operator Instructions] Our first question is from Rich Repetto of Sandler O'Neill. Please go ahead.

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

Good morning. The first question is on expenses, just to get away from the market structure debate for just one sec, but Scott, just following your walk on expenses, if you take your $463 million out of the $8 million one-time, you had $471 million and I think I've got you where there's $15 million of extra Euronext to get you to the $485 million, the low-end. But it doesn't seem – if you doubled the synergies in the quarter from – to $220 million, I think you'd expect to start realizing, I guess, at least $25 million or so additional. So I'm just trying to follow the walk here and the realization of this – the doubling of the synergies in the quarter?

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

Yeah, so Rich, you did the walk almost perfectly. The only other thing I would add is in the second quarter, we'll see a little bit of an increase in our non-cash expense. We were a little delayed in issuing our performance-related restricted shares this year and so we only had one month in the first quarter. We'll have three months in the rest of the quarters. So that'll move you right back into the middle of the guidance once you add in the $15 million of Euronext expense, which again for clarity, is 100% of the reason the guidance went up and is more than offset by the additional revenues that we would expect based on first quarter volumes and the clearing agreement.

But your question about the synergies, Rich, what I was saying and what I said in our February earnings call, was that the first quarter expenses reflect that $220 million achievement; it's in the run rate. And then what I also said on that February call and I'll repeat here is that we would expect a little bit more – I think I said $15 million to $20 million as you go through the year of additional synergy realization, but that's going to come from the work we're doing to integrate the corporate staff, to integrate the Liffe business, and so that's going to be more in the back-end of the year.

And so what I said then and I'll repeat again here is we would expect 1Q to 2Q to be kind of stable and then as you get to the back-end of the year, it will trail off a little bit as those synergies bleed in. Also embedded in this, consistent with what we said in February, is we are making investments. I said $40 million to $50 million that would support revenue growth of $100 million to $140 million. If you adjust for disc [discontinued] ops, we drove over $30 million of revenue growth in the first quarter alone. So we are seeing the revenue growth. We are making the investment to continue to grow our business.

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

Thanks, Scott. That helps. That gets me there. And now back to the market structure. Jeff, thanks for all the detailed comments. Now you can see what you've been missing just being a derivatives exchange prior, so. But I guess the question is, it gets to the topic of what you can do unilaterally and what you can't. I've seen you stepped up in regards to the order types, but in regards to market data you need the industry.

So, anyway, the question is on the maker-taker model. Some [ph] invest (43:25), if you're that dead set against it, you could take a step. Could you explain why you couldn't? And I believe it has to do with best execution. And what do you see as the one priority thing that will get – reduce this complexity and fragmentation that we're confronting in the equity markets – the cash equity markets?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

A

Yeah. So it's a very good question. I wish we could act unilaterally. But today in the world of smart order routers, as we change fees, those smart order routers react instantaneously and we suspect that if we went to a single two-sided rate, we can look at others that have that rate and those smart order routers will basically leave us in the dust.

And if you look at the volume on the exchanges and trading platforms that have low two-sided rates, their market share is probably less than 1% and we're not going to take the New York Stock Exchange down to less than 1% market share. It's why – I think there is a mechanism already that the SEC has set limits on what exchanges can charge. And I'm really suggesting that I think those should be revisited, and I think the more support that the industry will provide for revisiting of those rates, the more likely it is that the SEC will put that up on their priority list.

I will tell you that we've had many, many meetings with the SEC at all levels and I find them to be very engaged and interested in making sure that we have a well-functioning U.S. capital markets system. I've been very impressed with them and they've been incredibly gracious to listen to me and some of my ideas and so I have quiet confidence that as more people speak out about improvements, that we'll see the industry coalesce around some good ideas.

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

Q

Okay. Thanks, Jeff. Thanks, Scott.

Operator: Our next question is from Christian Bolu of Credit Suisse. Please go ahead.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Thank you, Jeff. Thank you, Scott, for taking my questions. Scott, just quickly, just to make sure my math is right, if I just look at the core ICE segment expenses of $463 million and back out the Euronext expenses, and then I compare that segment to your expense guidance for the year, it feels like expenses, even for core ICE, is going up through the year. Help me just think about anything in terms of incremental investment spend versus the synergy you're talking about being realized through the end of the year.

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

A

Yeah, again, I mentioned in my remarks that we had about $8 million of kind of one-off accrual credits that we had in the first quarter, and then I mentioned in answer to Rich's question that we'd have an increase related to our performance RSUs in the second quarter. Once you adjust those things in, there is no increase in expense 1Q to 2Q. We're right in the middle of the range and we're right where we said we'd be and where we'd expect to be.

And importantly, you guys recall that we suggested that once we peeled Euronext out and put the NYXT businesses in disc ops, that we would anticipate margins would've been around 48% to 49%; in the quarter they were 51% even adjusted for those one-off items. You take the guidance and put it against relatively flat revenues from the first quarter, those margins are going to remain right around 50%. So we're right where we've said we would be, right where we would expect to be and very happy with the progress we've made.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Okay. Thanks for clearing that up. Jeff, thanks for all the updates on the opportunities ahead. I just wanted to hit specifically on the European interest rate complex, and just more broadly speaking, how do you think about your opportunity in the longer-term products? Do you think you can actually win share from the current incumbent or is the focus here really more on creating kind of newer products?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

A

It's a good question. The answer is we really just talk to our customers about what their needs are and then we try to solve for those issues. And that may mean in some cases share is taken and certainly it means that we are going to be creating new opportunities and ideas.

I'm quite proud of the fact that we stood up a brand new business that had no employees and no history and convinced the market that we should administer the LIBOR oversight, and now, again, convinced the market that we should take over the administration of the ISDAFIX process. Those businesses put us very, very close to our customers daily, hourly contact with people talking about where the markets are moving and they impart domain knowledge to us and give us an insight into where our customers are thinking, where they're having stress points.

And if you couple that with the fact that I'm very, very proud of what our colleagues have built in our clearing infrastructure with the really sophisticated models and the quants that we've been able to attract and hire, who increasingly are getting deeper into managing risk, I think we're just incredibly well-positioned. We're lucky to have the Liffe rates complex now come to us and that's a very, very good starting point for us to do both things that you suggest, take market share from others and also continue to launch new products. So I think long sto ry short, we're feeling very, very good about where life has taken us right now.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Right...

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

A

I mean, l-i-f-e.

Christian Bolu
Analyst, Credit Suisse Securities (USA) LLC (Broker)

Q

Right, right. Thanks for all the color there and congrats on all the progress.

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

A

Thank you.

Operator: Our next question is from Mike Carrier of Bank of America Merrill Lynch. Please go ahead.

Michael R. Carrier
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Thanks, guys. You gave an update on Euronext, just in terms of the June timeframe. Maybe just give us an update there in terms of what other regulatory approvals have to get done.

And then, maybe, Scott, maybe just, when you look at, I guess – it's tough to go into too much detail – but when you look at the valuation out there, maybe more the ownership percentage versus what you guys could release, how can that either shift or accelerate over time, just your, I guess, cash deployment opportunities, and not just on Euronext, but when you put that together with tech and then just the overall cash flow to the business throughout the rest of the year?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

A

Let me ask Scott to answer both questions since he's been really helping to drive that IPO.

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

A

Okay. Yes. I'll tell you what I can on the process. Mike, as you would anticipate, the last step before we file the IPO later this quarter is we need the final approval from the college of regulators. And I think we have a very good dialogue going on with them with regards to that process. We're well along in the process of putting the prospectus together; well along in the process of educating some of the potential investors. So, we feel good about where we are in the process. That's why we've continued to stick to say, clearly, we can't say with certainty when that regulatory approval will come, but we're pretty confident and feel good about where we are in the process right now, but still frankly a lot of work to be done.

With regards to what happens at the time of the IPO, that's hard to say without knowing what the market dynamics are at the time we launch or what the demand is at the time we launch. What I can tell you is what we've said publicly before, which is, if required, we've committed to be a stable shareholder in Euronext for a period of time, but again there's no certainty around that either as we move through the process. So, I think the net of it is we feel very good about where we are. We remain confident that we're on track to get it done.

And to your question on cash use, as I said in my remarks, first of all, I thought that the first quarter cash results really demonstrated that the cash we can generate just from the business, clearly, depending on the size of the stake we can sell on Euronext, that will help us accelerate our deleveraging, and then as you mentioned, the divestiture of the NYSE technologies business will also fund that.

So we feel pretty good about where we are, not just with regards to the Euronext IPO, but with cash generally and our ability to get our deleveraging done on time, if not more quickly, and then get back to our share repurchases and investing in our growth.

Michael R. Carrier
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

All right, thanks Scott. And then Jeff, just as a follow-up. Just on the outlook for volumes, and I know you have a bunch of different trends that can have impacts, but I guess when we look at it, if we look at some of the energy products you definitely are on the rate side, even on the FX side, there's a lot of things that are having impact. But if you look at some of the regulatory pressures on the big financial institutions and even on clients in an indirect way, do you see that as having much of an impact or is it the typical things that tend to impact your business in terms of low volatility, some macro uncertainty. Just trying to get any insight on just what you guys look at, what's driving it and then maybe what could be some levers moving forward to pick up the volumes?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

A

Yes. So let me just say natural gas, the U.S. natural gas markets are the markets where Chuck and I really first started ICE and they remain core to our hearts for that reason. And in the United States, as most of you know, a very cold winter, colder than expected. And so people who were trading natural gas either made a lot of money or lost a lot of money depending upon where you were positioned.

And so, part of I think, the quietness of the natural gas markets right now is that we're in a shoulder month period and a lot of our customers are going back and scratching their heads and looking at what happened over the winter before they decide their positioning for summer and beyond. That has nothing to do with regulatory – that has to do with weather – not regulatory issues.

That being said, there's definitely a sense of totality of regulation that is sweeping over our customers and it's complex and it's somewhat unknown and there's some trepidation and dates and deadlines continue to move. And so we do – we are having unbelievably active dialogue with our customers of trying to help them as we figure out where we need to be to meet those same kinds of dates and deadlines.

So there does feel to be kind of a pall, if you will, on hedging and trading activity right now as people digest a relatively large and new regulatory regime globally. I think however, as I said in my prepared remarks, the trend is for exchanges and transparency to be embraced and we've positioned ourselves well as a transparent and regulated exchange and clearinghouse venue.

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

A

And as we mentioned as well, we continue to see our Liffe trends that are stable to significantly improving. We mentioned Brent and Ags being up 16% and 14% year-to-year. And a metric we talk about from time to time, I look at the fact that we continue to see more people log into the system, more IDs.

So the people are definitely there. The OI, the open positions are definitely there. And so as we mentioned in the remarks, once the volatility returns, we feel pretty well positioned.

Michael R. Carrier
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

All right. Thanks guys.

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

A

Thank you.

Operator: Our next question is from Jillian Miller of BMO Capital. Please, go ahead.

Jillian Miller
Analyst, BMO Capital Markets (United States)

Q

Thanks guys. And thanks for all the commentary on market structure, Jeff. That was really helpful. One thing that wasn't totally clear to me from the comments, do you think that we basically need to do away with maker-taker entirely to really see a healthier market or do you think that just a lower cap on access fees might be enough on that front? And I guess like how do you see the longer-term market outcomes being different for those two potential regulatory changes?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

A

I personally think as long as we're talking about changing it, we should abolish it. I do not believe that it's healthy for exchanges and trading venues to pay for order flow. People talk about that as if it is liquidity, but because there are both maker-taker venues and then taker-maker venues, you end up with people buying on one venue and selling on another venue and not having any interest in really owning shares.

And in other markets where we've got competitors that are doing massive payment for order flow and rebate structures, we end up with customers that want to advantage themselves of those and what they do is they end up doing big low-risk trades, trades that are way out the curve, butterfly trades that carry no risk or low risk. They do them in the middle of the night. They do these big volume trades and then the exchanges all go run around and talk about how fabulous their volumes are and use that as a marketing technique to try to attract the true hedgers into a market, that really by that design, is incredibly illiquid and is a roach motel.

And so, I am not a fan of market structures that create false volume. I think there are plenty of people in our markets today, and you see them all through the historical markets that ICE has been involved in, that are willing to be market-makers, legitimate market-makers that will make a two-way price and provide liquidity into the market, many using high-speed trading techniques that are helpful unmeritorious for the market in exchange for access, discounts and other traditional market making compensation that does not involve payment for order flow in the form of maker-taker or direct subsidies.

And so, I don't know why we wouldn't just go all the way. I think if you reduce it, it will certainly help, But again, false volume signals I think are as wrong as false price signals, in which case most people would go to jail. And I don't know why we should make the distinction when we all know that our customers are looking at both in making investment decisions.

Jillian Miller
Analyst, BMO Capital Markets (United States)

Q

Okay. Thanks, that's helpful. And then Scott, you had mentioned that there was – I think you said $30 million of revenue growth in the first quarter alone that came from investments that you had made – and I apologize if I missed this in some of the prepared remarks, but could you just give us a better idea for what that was related to, like where that $30 million came from? Was that investments post-transaction, like related to the deal? I was just a little bit confused there.

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

A

No, I didn't link the two directly. What I said was in the first quarter we did see $30 million of revenue growth. If you adjust 2013 for discontinued operations revenues and look year-over-year, we were up about 4%, a little more than $30 million. And what I was suggesting was, we are making investments this year to continue to generate revenue growth. So I was really just harkening back to the same comments I made in February.

Jillian Miller
Analyst, BMO Capital Markets (United States)

Q

Okay. Got it. Thank you.

Operator: Our next question is from Ken Worthington of JPMorgan. Please go ahead.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Hi, good morning. First, on other revenue, hefty $134 million this quarter, and you've done some re-jiggering to what is reported in that line. At this point, what is the composition of other revenue? How variable should it be from one quarter to the next and why was the guidance down versus 1Q levels?

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

A

So Ken, I think in my prepared remarks, I mentioned that there are membership fees, there are transaction services, there are the corporate governance businesses that we own, the network and co-lo. So there are a number of items that make up other. It's a bit of a mishmash. We had a few million dollars in the first quarter related to a termination contract that won't continue through the rest of the year.

We gave guidance for the quarter of $120 million to $130 million and I think you could expect – and by the way you take out a few million dollars for that one-time we would have been right at the top end of that range – and I think similar to what you've seen in the past through ICE other revenues, you should expect stability in that range throughout the year.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Okay. Great. And then maybe, Jeff, wanted to hear additional comments on nat gas, given the volatility in January and February, are you hearing that this is or will lead to how much is hedged and how gas is kind of traded going forward? And then is there any merit to a potential transition to more shale gas trading where ICE has such a dominant presence?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

A

Well, I think, we look at our OI trends and while trading has been subdued in these shoulder months, the OI trends are still quite good in North American natural gas. In Europe, as I commented, like what we've been able to do there is unbelievably successful. And, so many of the global trading companies have been active in Europe while they've been quiet in the U.S. So we've seen them kind of shift their market making, risk taking appetite to where the markets warrant.

So I don't see anything long term structurally negative. It's just we are aware that it was very, very interesting over the winter on some of – where some of our customers were positioned – and they were either right or wrong many of them and so people go back and re-jigger their models and think about their personnel and think about their capital deployment and it feels like that's what they're doing over these spring months.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Okay. But in terms of corporates, the corporates aren't changing the way they hedge to go to Pennsylvania gas as opposed to Henry Hub?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

A

No, not really. And Henry Hub still is the marker for the U.S. and people still continue to use it and as we've seen in other markets, there are imperfect benchmarks that exist in the world and we can all talk about how we could design a more perfect one. But the market tends to try to just continue to evolve and adapt around the imperfect ones as opposed to abandon them.

And so, that's really what we see going on here. And we have a lot of dialogue with our customers a bout the potential to launch new delivery points or new contract designs or new specifications. Obviously, that's why we're changing our Gasoil contract from a high sulfur Gasoil which is really heating oil to low sulfur Gasoil which is really diesel fuel.

And so we do do those kinds of things. But what's interesting, if you look at what we announced, is that the market told us, don't launch a new Gasoil contract, just change the one that we have now from high sulfur to low sulfur so that things can continue. And it's that kind of attitude that we're seeing by energy traders in the U.S. and natural gas space.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Thank you.

Operator: Our next question is from Alex Kramm of UBS. Please go ahead.

Alex Kramm
Analyst, UBS Securities LLC

Q

Hey, good morning.

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

A

Good morning.

Alex Kramm
Analyst, UBS Securities LLC

Q

I want to start with coming back to expenses, but maybe ask a little bit more of a longer-term question. I think, historically, ICE has done a really great job of cutting expenses and discretionary expenses when you have lower volumes. If I look at your proxy right now for example, I think a lot of management compensation is also going to be tied to synergy realization; at the same time you also have a much bigger organization that's now doing things like listings and other parts.

So, as you look at this current environment and the volume environment if that persists, but you do well in other things like synergies, do you still have the kind of discretionary or that flexibility on the comp side as we approach the end of the year?

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

A

100%. We are a performance-based pay company and we remain a performance-based compensation company. So yes, that flexibility will absolutely exist. I think we've been pretty explicit – look, we understand that there's a lot of noise in putting these two companies together and we're trying to be very explicit, more explicit than – we haven't given revenue guidance before and we gave you a number. We're trying to break our expense guidance down two pieces to be helpful.

But if you look at that, that guidance I mean, it's reflective of what would be a very good year. If we don't hit those numbers, our compensation will be adjusted accordingly across the board.

Alex Kramm
Analyst, UBS Securities LLC

Q

Okay...

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

A

Alex, the biggest issue is that, this particular management team that's sitting in this room on this call doesn't really want to run a big bureaucratic organization. We just – not what we do well and none of us enjoy it. And we enjoy feedback directly from customers and you can only get that when you are running incredibly flat and you get senior management to dialoguing directly with employees that are touching customers day in and day out. And so, the culture here is just one where we don't want to be that and we don't like it and as a result of that, we're not going to tolerate a lot of bureaucracy.

Alex Kramm
Analyst, UBS Securities LLC

Q

Okay. Great. And then maybe secondly, just coming back to the European interest rate business for a second, I think you gave some highlights of new product launches and things like that. But can you talk about other things that you've been maybe doing behind the scenes that maybe not be as obvious, like obviously I think you changed some market maker incentives and Scott, did that actually help the pricing and should that continue to help the pricing?

And then – but also in terms of your sales organization or other things that you do when you interface with your customers – I mean, what are you doing different than maybe that Liffe did not do as well in the past?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

A

This is Jeff. Let me try to tackle that at a high level. First of all, the main thing that we're doing is we're pushing the Liffe and the ICE organizations together and we're taking the best people from those two organizations. At the same time, we're pushing the Liffe products on to the ICE trading platform because we have – we think better distribution, a lighter weight platform, a platform that's easier to deploy, it's accessible via the Internet. And so, we're doing a lot of technology work to really modify the traditional commodities-based ICE platform to handle a wide range of financial products, including some that are incredibly complex.

We're also looking at our interest rate footprint as a global footprint and we're combining our interest rate products in ways that will give economic offsets in clearing but also will be complementary to the way people trade and we're designing the platform usage to try to exploit that.

And in that regard, when it comes to pricing and market maker schemes and what have you, we basically are moving from the Liffe model to the historical ICE model and just aligning pricing and schemes and things to what we believe works for us. And the comments I made about market structure for the equities market apply to our views on all of our markets on how we think about rebates and market maker schemes and payment for order flow and limiting high-frequency traders to those that have meritorious behavior and all of those kinds of things are built into our thinking and they're built into the ICE platform.

And so, there's a lot going on right now around those products that represents a huge opportunity for us, so we're quite focused on it. While I spent the large portion of my prepared remarks talking about the U.S. equity structure, that's largely because it's in the news. The reality is, as you know, it's not a particularly large business for us and we have incredible flexibility to try to make some changes to that business because we have the opportunity of scale. And so, we speak with one voice here and I think that's how you're going to see us operate in the interest rate complex. Which I think is materially different from some of our peers and I think it will be well received, frankly.

Alex Kramm Q
Analyst, UBS Securities LLC

Yeah, so Scott, anything on the pricing on the interest rates you want to call out?

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

No. Again, I think it had not a particularly material impact on the pricing overall. And you have seen and you should continue to expect pricing similar to other products to be reasonably stable.

Alex Kramm Q
Analyst, UBS Securities LLC

Okay. Thanks a lot.

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

Thank you.

Operator: And our next question is from Niamh Alexander of KBW. Please go ahead.

Niamh Alexander Q
Analyst, Keefe, Bruyette & Woods, Inc.

Hi, good morning. Thanks for taking my questions. If I could talk about cash, so, just such a great track record with the cash earnings consistently kind of exceeding the operating earnings and the returns on the capital. Now I see you're kind of upping the CapEx guidance here and then kind of bottom of the slide 21, you seem to be investing in a new matching engine for U.S. engines. I guess I'm a little concerned because your predecessors – NYSE historically – we've kind of examined the organization as we used to cover it and we always covered ICE – I mean there was such a story of contrast. And you were kind of minimizing the CapEx and maximizing the returns and still having minimum downtime whereas New York was constantly throwing cash into its systems and reinventing its systems and still having kind of very low margins.

So, I'm a little nervous that you're raising the CapEx guidance here and you seem to be investing it, in yet again, another engine for U.S. equities and options when that's been done by them for several years. So just help me reconcile the two?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

A

Niamh, this is Jeff. Let me start. What we've decided to do in the cash equities and equity options business is standardize on one lightweight, easily deployable and high-capacity platform. What the past management inherited at NYSE were five different exchanges that had five different platforms and they spent a significant amount of time and energy to get those platforms to work together as a single cohesive unit. And they should be credited for that because they are five disparate systems.

What we want to do now is just really take that to the next level, which is replace all of that with a single platform because the differences between market structures in those businesses are not great enough to warrant having different platforms. There are – frankly, the different features between different regulatory exchanges largely revolve around maker-taker pricing and the way market makers are compensated. And again, owing to our earlier comments, we want to standardize that. We want to simplify that. We want to have a single, fast, lightweight platform that is reliable. And so we're making a one-time investment.

What will come out of that – we think – is a great return on invested capital because we're going to so dramatically simplify things that we'll be able to shed a lot of excess complexity and things that add to decrease in reliability by the incumbent system. We've got that kind of DNA inside ICE. We started the company at the height of the dotcom boom. We really believe in embracing low-cost hardware that is easily deployable and that has a lot of redundancy in its networking design. And so were bringing that kind of mindset to this new product.

Niamh Alexander
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Fair enough. Thanks. And just, I guess, for my follow-up on Euronext, can you walk me through your interest or desire to have – in what scenario will you still be consolidating Euronext? I'm just trying to get a sense, I guess, basically of if there's enough demand, would you be interested in kind of no longer consolidating or no longer having a controlling interest in the organization if there's enough demand and if the structure allows that?

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

A

Yeah, Niamh, whether we consolidate or not is a pretty straightforward accounting rule. If we've got more than 50%, we'll consolidate it, and if it's less than 50%, we won't.

Niamh Alexander
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Yeah.

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

A

Clearly, we said early days that we didn't think we were the optimal owner of what is an attractive business. But it's a business that serves local markets and we didn't bring much to the table. And so, there's no particular goal on our side to own a majority and to consolidate the results. What we're going to be able to sell at the time of the IPO, as I mentioned earlier, is going to depend on what the market dynamics are, but we don't have any desire to continue to consolidate the business for any long-term period.

Niamh Alexander
Analyst, Keefe, Bruyette & Woods, Inc.

Q

So is it valuation – at a certain valuation level, you'd be willing to sell more, but it pays you more to kind of keep it?

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

A

Yes, that's exactly right. Sorry to step on your question. But when we are -- as we talk about market dynamics, price, demand, all of those factor in

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Niamh Alexander
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Fair enough, thank you.

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

A

This is Jeff. I think it's going to be one of those situations where shortly before we take the business to the public markets, we're going to look at the markets and look in the mirror and talk to our advisors and try to make the best decision on behalf of our shareholders of what is the immediate benefit of exiting versus what is the longer term economic benefit of keeping and what will the market allow us to do? And we're just going to stick our finger in the wind and try to make the most informed decision that we can at that moment in time.

So we're prepared for any eventuality. I mean, fortunately, Scott has done a very good job with the debt that we've been able to secure that gives us a lot of flexibility. And as you can see, we're generating a lot of cash that allows us to service that debt. So we have a lot of flexibility in looking at that market as we move into the IPO.

Niamh Alexander
Analyst, Keefe, Bruyette & Woods, Inc.

Q

Okay. Great. Thank you.

Operator: Our next question is from Alex Blostein of Goldman Sachs. Please go ahead.

Alex Blostein
Analyst, Goldman Sachs & Co.

Q

Good morning. Thanks. Hey, guys, sorry, another one on expenses, but given the reaction from investors I think today, it's clear that it's still a concern out there. But maybe if you look at the guidance for the ICE segment on the operating basis, and somebody else talked a little bit earlier about your ability historically to deliver operating leverage on the positive side even in a tough revenue environment, so within the $156 million to $158 million, Scott, can you give us a sense of what kind of volume or revenue backdrop you anticipate embedded in that expense guidance?

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

A

Yeah, look, I think people saw a headline that expense guidance is up and the stock is off on that, but to me that's a buying opportunity because we didn't say anything different, right? What we said about expenses is 100% consistent with what I said in February, with one exception. And that's that we're going to add expenses related to Euronext, predominantly related to the clearing arrangement that started on April 1.

We said our margins would be 48% to 49% without Euronext and NYXT, they were more than 50%. Roll the expense guidance through for the year, again, on revenue that's similar to what we saw in the first quarter – it's 50%.

The expense in the first quarter reflects a run rate of over $220 million of synergies, more than 40% already done. That's what we said in February; it's true. We said there would be some investment as we go through the year, some additional synergies as we go through the year, and we said we'd grow revenue. In the first quarter, we grew revenue 4%.

So, again, we'll go look at whether or not maybe there's some lack of clarity in the guidance, but it is very consistent, it is very positive and it's right on track with where we expect to be.

Alex Blostein
Analyst, Goldman Sachs & Co.
Q

Okay. And speaking of the stock and the buying opportunity, I guess you guys have said in the past that it's frustrating that your hands are kind of tied that you can't take advantage of buying back stock here.

Now, assuming that the divestitures kind of take place as you would expect, but also understanding that there is Eurobond that you would like to retire next year, can you speak to your flexibility to perhaps pay down the commercial paper this year to kind of get the leverage ratio in the right place and start the buyback sooner?

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

Yes. So, that's one of the reasons why we shifted a lot of it into the commercial paper that is easily repayable once we've got the cash in hand to do that. We are looking at the dynamics for an early payment on the Eurobond and what that would entail. We're in discussions with the ratings agencies on how they would treat it if we had the debt, but we also set aside cash. Would that give us a net debt treatment so that our leverage would be viewed at a point where, as you can say, we can get back to executing on the authorized share repurchase that we have today.

So I feel pretty confident that once we get through the Euronext IPO and with, as Jeff said, the strength in our operating cash flow, that we've got a very flexible debt structure that will allow us to get the deleveraging done efficiently.

Alex Blostein
Analyst, Goldman Sachs & Co.
Q

Great. Thanks. And just a clarification on the incremental revenues from the Euronext clearing arrangement that is anticipated starting, I guess, April 1?

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

Yeah, so again, the agreement started April 1. The net of the arrangement is there are some expenses that I mentioned – $9 million to $10 million – that would be incurred and revenues of $16 million to $17 million. Just to be clear, that's really based on looking at first quarter volumes and what would the revenues have been based on those volumes and then assuming similar volumes in 2Q as to what it would yield. But embedded in that, obviously, is that the amount of revenues will be tied to the derivatives volume that is related to the clearing agreement.

Alex Blostein
Analyst, Goldman Sachs & Co.

Q

Great. Thank you so much.

Operator: Our next question is from Chris Harris of Wells Fargo Securities. Please go ahead.

Chris M. Harris
Analyst, Wells Fargo Securities LLC

Q

Thanks. Hi, guys.

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

A

Good morning.

Chris M. Harris
Analyst, Wells Fargo Securities LLC

Q

So another follow-up question on the volumes. I appreciate all the color you guys have given regarding what's happening in the market. The one thing I'm just kind of thinking about is the decline in the volumes that you've seen. They seem to be correlating exactly with a pullback from the banks and others that are closing their commodity trading desks or significantly reducing them, and also the slowdown in Asia. So you guys didn't mention those things, but I was wondering, are any of those having an impact on your volumes?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

A

This is Jeff. We don't really see that. At least it's always hard to know why somebody trades, but honestly, it doesn't feel like that it's that correlated to the banks. The banks that we deal with, as I said in my prepared remarks, those that have separated themselves from some of their trading operations, those trading operations have largely gone other places and continue to give us business and the banks still are facilitating a lot of customer business that they tend to have always done.

The banks have never been a particularly large percentage of our commodity markets per se. And these are widely distributed markets that are global. And it is interesting that we do still see growth coming out of Asia. It's why we want to own an exchange and clearinghouse in Singapore. And if you look at our energy business, amazingly to me, our European energy business – what people think of as our historical European energy business – has less volume coming from the EU than it does from places outside the EU as we sit here today. Its growth has been incredibly global and incredibly dispersed.

So, I think U.S. natural gas is really a weather related issue. There are structural changes going on in the gas market, but volumes specifically tend to be somewhat volatility related. And gasoil we're changing the spec and so people are adjusting that. And the interest rate complex in the U.K. is waiting for the Bank of England and the U.K. economy, which we have cautious optimism has turned the corner and is improving and will start to put volatility in the rates business.

So all of those things feel like to us like a spring that's coiled for upside, particularly when you lay over our open interest trends on it, and none of that has anything to do with the way banks are restructuring, in my mind.

Chris M. Harris
Analyst, Wells Fargo Securities LLC

Q

Okay. Thanks for that. And a quick follow-up for Scott, just kind of a point of clarification, again sorry, Scott, on the synergies and the expense guidance. So I know the expense guidance excludes NYXT, but one thing I just want to make sure I'm getting right, the remaining synergies you guys have left, does that also exclude NYXT or are there expenses embedded in there related to NYXT as part of your synergies that are remaining?

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

A

No, that's a great question. So, we had about – of the $220 million, about $35 million to $40 million of that came from the NYXT business, which is now sitting in disc ops. Those businesses that we are divesting or have shutdown are all in disc ops. As we go forward, I think the simplest way to think of it, is the rest of the synergies, you're going to see show up in the ICE segment expenses.

Chris M. Harris
Analyst, Wells Fargo Securities LLC

Q

Okay. So it will all hit the P&L then?

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

A

Yep.

Chris M. Harris
Analyst, Wells Fargo Securities LLC

Q

Okay. Great. Thank you.

Operator: And our next question is from Bill Katz with Citigroup. Please go ahead.

William R. Katz
Analyst, Citigroup Global Markets Inc. (Broker)

Q

Okay. Thanks very much. As we think about the combination of ICE and the New York Stock Exchange, I think one of the themes was that you might be able to get more expenses out of the business then you maybe have already articulated. So based on today's commentary, it sounds like you're going to spend a little bit first. But so is it – are we now at a point where the incremental synergies of the business might be more on the topline or could there still be some more incremental savings that you could see on the other side of 2015?

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

A

I think the opportunity exists for both. One of the key expense synergies that we're working on is the – well, it's not even really the integration – it's frankly the merger of Liffe into ICE futures Europe onto one plat-, it's already sitting in one clearinghouse, but onto one platform. And one of the things that we've seen historically is, as we move more people onto a single platform that tends to boost trading. You just get more people staring at the screen, more people who are able to trade, et cetera. And so I definitely think that there are synergy opportunities on the topline related to that, setting aside that the opportunity that exists as the European economy tends -- starts to improve or continues to improve and we continue to launch new products.

So I definitely think there are topline opportunities. And look, I think you said it exactly right. One of the reasons that we're making the investment that Jeff described earlier, in the NYSE technology platform is because we believe a simple, elegant single technology platform will be much less costly to maintain than five separate technology platforms.

And so I do anticipate that we will continue to find expense synergy opportunities. I'm not saying that $500 million is more today, but I'm saying there's an opportunity for $500 million to be more and I think as a management team ,we've demonstrated a very good ability to get expense out where there are those opportunities that existed.

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

A

And maybe I should mention – this is Jeff – that we're well along on how we are going to move to a more simple technology model inside the NYSE and the related exchanges. And we have a competitor that is going to be moving people onto new platforms and so we are looking at when we can move and the timing around that, so that we don't put the industry through too much stress. But we are making rapid progress that will allow us to both cut costs and simplify and growing that business, we believe, that I think will be meaningful in the not too distant future given the speed that we've been working.

We didn't announce it but we've been prospectively been working on that platform since the first day that we acquired the company and things are going well in terms of how we've been able to organize and get ready to deploy that.

William R. Katz
Analyst, Citigroup Global Markets Inc. (Broker)

Q

Okay. That's helpful. And then my follow-up question comes back to market structure, and Jeff, appreciate your comments. As you think about everything you mentioned it seems like there's pros and cons for both the industry as well as ICE. How should we think about both the foregone revenue or economics that might come about from some of these promulgated changes, obviously, nothing happens yet, versus the opportunity for maybe some consolidation of fragmentation?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

A

Well, I think to a certain degree the exchanges are somewhat responsible for the fragmentation of the market by what was perceived as innovation with all these new order types and rates. And to me, it's not completely surprising that people wanted to flee those markets and trade elsewhere.

Today you have in the United States about 40% of the business that is not trading on exchanges and that's quite sad and it's definitely impacting in less liquid names, the price discovery process. You've got conversation about whether or not we should move to $0.05 tick sizes, whether we should do other kinds of stimulation to try to bring people back to some of the more liquid names, and the reality is I think the easiest way to bring people back to transparent markets are to make it easy for them and simple for them to access those markets.

And so, I think whatever we would give up in some of the "innovative" things that we have at our exchange we would more than make up in volume. Beyond that, what's saddening about the U.S. equity market is that when I go out and talk to my friends, they do not have confidence in those markets. And that is a – and trying to take a bigger piece of a shrinking pie is a silly business – and we should all be trying in this industry to grow that pie. And yeah, we can bang each other heads and compete for pieces of the pie, but the reality is if you look at the quality of people that are writing algorithms, that these people are literally some of the smartest people in the world, and we as an industry have them deployed on trying to get pieces of a shrinking pie. And just from a societal standpoint it seems like a misallocation of resources.

So, I'm quite confident that if we can simplify the model, make it easy to access, that it will grow because the markets were up over 30% last year in the United States and who wouldn't want to be 30% richer in their liquid net worth today. And if our entire our U.S. pension obligation were levered against a 30% increase, we would be in a substantially better place than we are today for our retirees.

So I think that that thing can grow, but it's got to become simpler and easier to access and I think the New York Stock Exchange, as I've said before, will get more than its fair share of the business. Until we get there, what you're seeing us do is investing in making it simpler, easier, smaller and less complicated. And that is something we control and that's what we're doing and the small investment that we're making in that platform we believe will have, as I said, a very high return on invested capital as we simplify those companies.

William R. Katz
Analyst, Citigroup Global Markets Inc. (Broker)

Q

Okay. Thank you for taking my questions.

Operator: Our next question – and our last question today – is a follow-up from Alex Kramm of RBS. Please go ahead.

Alex Kramm
Analyst, UBS Securities LLC

Q

Hey. Thanks for taking the follow-up.

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

A

Sure, Alex.

Alex Kramm
Analyst, UBS Securities LLC

Q

Guys, real quick, since you're legally separated, ICE and Euronext, do you, can you actually already give us the debt balance that Euronext's going to be carrying? I don't think it's in the Q.

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

A

No, it's not in the Q. It's not publicly available, sorry. But just to be clear, what we've legally separated was Liffe out of Euronext, not Euronext from ICE. So it's not a separate company yet, although its management team, quite successfully, ran the first quarter in a very independent manner.

Alex Kramm
Analyst, UBS Securities LLC

Q

Okay. And then just maybe secondly, and sorry to going back to U.S. equities market structure, but Jeff, I think you said that you have a lot of ideas and a lot of things that you think should change in equity market structure. But it sounds like to some degree you also acknowledge that it's different to drive change because volumes would just go somewhere else and you would lose market share. But to one degree, I would say you have three markets that you run in equities today and one of those markets AMEX or MKT whatever it's called these days, it obviously doesn't have much market share, so why don't you start experimenting? Like why don't you try to drive some of these changes that you think should be, right, in some of those markets and go out there and talk to customers to acknowledge them?

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

A

First of all, I'm smiling because you think about the name of that business in the same way I do, which is I don't understand it. So, it doesn't have a lot of brand equity and it's something that they were talking about, but beyond that, we never talk about the things that we're doing behind the scenes. We'll roll out our businesses when we think it's appropriate. But you can rest assured, that we're looking for opportunities, talking to a lot of people and looking at the assets that we have in much of which in the way you are thinking about. And what I wanted to talk about on the call today were the things that the industry should be doing, but I don't necessarily want to preview the things that we're doing.

Alex Kramm
Analyst, UBS Securities LLC

Q

All right, see you. Thank you very much for the follow-up.

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

A

Thanks.

Operator: And this concludes our question-and-answer session. I would like to turn the conference back over to Jeffrey Sprecher for any closing remarks.

Jeffrey C. Sprecher
Chairman & Chief Executive Officer, IntercontinentalExchange Group, Inc.

Thanks, Emily. I want to thank all of you for joining us on today's call and we're continuing to move a lot of parts and pieces and advance our business and we'll continue to update you on that progress on these initiatives as we move through the quarter. And thanks again for your participation today.

Operator: The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.