07-Aug-2014

Intercontinental Exchange, Inc. (ICE)

Q2 2014 Earnings Call

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MANAGEMENT DISCUSSION SECTION

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

I would now like to turn the conference over to Kelly Loeffler, Senior Vice President. Please go ahead.

Kelly Lynn Loeffler

SVP-Communications, Marketing & Investor Relations, Intercontinental Exchange, Inc.

Good morning. ICE's second quarter 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 our 2013 Form 10-K.

In addition to GAAP results, we've also referred to certain non-GAAP measures, including adjusted operating results from continuing operations, adjusted net income and EPS from continuing operations. These measures adjust GAAP results for certain extraordinary items, including the NYSE acquisition and discontinued operations and, we believe, are more reflective of our core business performance than 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 and 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 Chief Executive Officer; 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, Intercontinental Exchange, Inc.

Thank you, Kelly. Good morning to everyone and thank you for joining us today. I'll begin on slide four where I'll provide a summary of our first half performance.

Despite the continued headwinds of low volatility, which resulted in futures volumes declining 19% in the first half, ICE's consolidated net revenues of $1.5 billion were basically flat year-on-year on a pro forma basis. We expanded adjusted operating margins to 50% and we grew adjusted earnings per share from continuing operations 2% to $4.38 per share.

In addition, during June, we completed the IPO of Euronext and used those proceeds to effectively reduce our adjusted debt-to-EBITDA leverage to our target of 1.5 times. We also reached agreements to sell the non-strategic NYSE technologies businesses. Then, moving into July, we repurchased 1.8 million shares of our stock for $350 million. And finally, we continue to make good progress on our integration plan, including the successful transition of the Liffe U.S. contracts onto our ICE futures exchanges.

Our improved full-year guidance now reflects the achievement of nearly half of our original $500 million synergy target, and we have increased that target to $550 million to reflect additional synergies related to our cash equities and equity options businesses.

Our ability to grow earnings in the first half against a backdrop of declining volumes is driven by many factors including a favorable mix of products, diversification across our global markets, continuous product development, and our disciplined focus on expense management.

Importantly, there remain numerous metrics, from rising open interest levels to customer log-ins, that indicate volume declines are cyclical rather than structural. Open interest across our asset classes grew 5% from the end of 2013, and we established several volume records, despite the overall low volatility environment.

Please turn to slide five where I will briefly discuss our second quarter results. Consolidated net revenues were $750 million, adjusted operating expenses were $387 million, and our adjusted operating margin for the quarter was 48%. We also received $15 million in dividends from Cetip in the second quarter, which are reflected in other income. This includes an $11 million annual dividend and $4 million in quarterly interest and dividend payments, reflecting an increased payout ratio and a shift to quarterly versus annual dividend payments in 2014. This quarterly income is an important and recurring return on our investment in our partnership with Cetip.

Our tax rate came in towards the higher end of our range at 29%, as our business mix this year has shifted more towards the U.S. given the softer volumes in Europe. Adjusted net income attributable to ICE from continuing operations was $243 million and adjusted earnings per share from continuing operations were $2.10.

For the first half of 2014, operating cash flow was $836 million, an increase of 1% versus the pro forma operating cash flows of the two companies in the prior six months, excluding discontinued operations. During the same period, investments in operational capital expenditures and capitalized software were $87 million.

Now let's move to slide six, where we detail revenues and expenses for the second quarter. On the left side of the chart, you can see that over 60% of our $750 million in net revenue is made up of transaction and clearing net revenue, which totaled $460 million.

Market data revenues were $96 million. This includes Liffe market data revenues, which declined about $6 million from the first quarter, as we transitioned to separate data packages for Liffe and Euronext. We expect to recover at least half of that decline in the third quarter. Market data revenues for legacy ICE increased modestly, indicating continued strong interest in these markets.

We also generated $83 million in revenue from listings. Excluding the purchase accounting adjustment, listings revenue would have been up 5% year-to-year. Other revenue contributed $111 million in the second quarter.

The right side of slide six shows our expense detail. Second quarter adjusted expenses were $387 million and came in below our guidance, primarily due to a $6 million R&D state tax credit, reflected in compensation expense, which relates to 2012 and 2013. While future credits and the timing of such credits depend on the continuing extension of federal R&D tax credits, we expect to receive a recurring benefit for the current and future years.

Adjusting for this benefit in the quarter, we would have come in at the low end of the range of our expense guidance. And importantly, adjusted operating margin in the quarter was 48%, reflecting the benefit of the more than $200 million in synergies we've already realized.

Moving now to slide seven, I'll discuss our derivatives revenue and volumes in greater detail. Total futures and options revenue was $329 million on volume that declined 20% year-to-year, reflecting low volatility across most asset classes. This includes European interest rates that declined significantly compared to 2013 volumes which grew 25% and against the backdrop of recent ECB rate cuts that have kept short-term interest rates near zero in the EU.

Despite the decline in volumes, open interest trends are encouraging. Open interest was 79 million contracts at the end of the second quarter, a 5% increase from the end of 2013. Excluding natural gas, open interest was 58 million contracts at the end of the second quarter, up 17% from year-end.

Brent and other oil open interest are at record levels, up 25% and 17% respectively at the end of June compared to year-end. And interest rates open interest is up 17% year-to-date. And as we've seen before, once volatility in seasonal activity returns, these types of healthy open interest levels generally translate into volume growth.

We announced July volumes on Tuesday, and despite declining volumes in energy, our July energy revenues were up versus the prior year and up significantly from the second quarter of this year. This is a tangible example of the growth in Brent OI turning into a meaningful revenue contribution as volatility returns. And the slight RPC decline was due to the typical declines we see related to customer mix during volatile periods and reminds us that it's revenue not RPC that generates profit.

Continuing with our derivatives markets on slide eight, I'll update you on our CDS business. CDS revenues were $41 million in the second quarter, up 3% year-to-year. This was driven by a 6% increase in clearing revenues to $24 million. In the first half of 2014, we continued to enhance our product set, including clearing for the market iTraxx Senior Financials CDS index and Sovereign CDS instruments on Italy, Portugal, Spain and Ireland. In the course of just a few months, we've cleared $537 billion in gross notional value in these new contracts.

Turning next to slide nine, you will see a summary of the second quarter performance of our U.S. cash equities and U.S. options exchanges. While second quarter volumes in cash equities were down 12% year-to-year, we achieved market share gains both year-on-year and sequentially.

And as you will hear from Jeff, we continue to focus on a constructive dialogue with our industry and regulators to reduce market complexity.

In our U.S. options business, we also saw muted volumes, resulting in average daily volume declining 21%. Though market share was down year-over-year, market share and RPC were steady sequentially.

And as reported on Tuesday, our July volumes were mixed, with U.S. cash equities average daily volume of $1.3 billion down 4% year-over-year, but with U.S. equity options average daily volume of $3.6 million rising by 1% year-over-year.

Next on slide 10, we provide an overview of our cash generation and debt profile. Operating cash flows grew to $836 million during the first half. At June 30, we had $2.1 billion in unrestricted cash. On a trailing 12-month basis, our cash earnings per share were $9.64, which is a 6% increase in cash earnings over the same period in 2013. We calculate cash EPS using operating cash flow less capital expenditures, divided by the weighted average shares outstanding. We believe this is an important metric for investors to consider, as it reflects the cash generative capability of our business.

We completed the IPO of Euronext in June and received total net proceeds of $1.9 billion. Following the receipt of the proceeds, we set aside $1.3 billion to repay the June 2015 euro notes when they mature. In addition, the proceeds were used to reduce our outstanding commercial paper by $563 million during the quarter. As a result, adjusted gross debt-to-EBITDA is 1.5 times. Our target debt-to-EBITDA leverage ratio of 1.5 times will remain an important focus. However, you'll see us moving around that target from time-to-time, based on the cash flow of the business, the timing of strategic investment opportunities and our capital return program.

Please now move to slide 11 where I'll provide an update on our capital allocation. We remain focused on driving both earnings growth and delivering strong returns by investing in our business, while also providing a prudent level of capital return to shareholders both through dividend and share buybacks. As you can see on slide 11, capital returns were modest in 2012 and 2013 as we prepared to close the NYX transaction.

However, prior to that, from 2008 through 2011, we repurchased nearly $600 million of our common stock. And in July, after using Euronext proceeds to achieve our leverage target, we spent $350 million to repurchase 1.8 million shares of our common stock under our existing $450 million share repurchase plan.

And our Board of Directors recently expanded our share repurchase authorization by an additional $600 million. As the chart indicates, based upon our current dividend level and assuming we utilize the remaining $700 million for future share repurchases by the end of 2015, we may return as much as $1.7 billion to shareholders during 2014 and 2015 combined, including over $1.1 billion in the next 17 months. Importantly, we believe we can do this while continuing to invest in our existing business and while participating in strategic M&A to drive long-term growth.

I'll wrap up on slides 12 and 13. Slide 12 shows the evolution of our expense base and synergy achievement. The chart begins with the data we provided when we announced the NYSE acquisition in December 2012 and includes adjustments to remove Euronext and NYSE technologies from the expense base.

Importantly, as noted on the first bullet of this slide, after a comprehensive review of the NYSE operations, we have identified an additional $50 million of expense synergy. This includes the technology platform rationalization we discussed last quarter, as well as efficiency gains across other areas of the business.

The increased total of $550 million in expense synergies exiting 2016 means we will have reduced the combined companies' total expense base by roughly 30% and the NYSE Liffe expense base by well over 40%.

Moving to the graph, you will recall that our November Strategic and Financial Update, we noted $95 million in expense synergies had already been achieved. We subsequently noted that we would achieve between $35 million and $40 million of synergies from the discontinued NYSE technologies businesses. Adding those two together, you get $132 million of synergies achieved and a continuing ops expense base of just over $1.6 billion.

Our current full-year expense guidance reflects an additional $108 million in synergies versus that new base, bringing the total to $240 million in 2014. And as we exit this year, our first quarter 2015 expenses should reflect a run rate to achieve 70% or $350 million of our original synergies, excluding any additional investments we may make during 2015.

You can see that as the synergies increase and as we divest non-strategic businesses, our total expense base comes down significantly. You can also see this progress in our operating margin, which as noted previously was 50% for the first half of 2014.

Turning quickly to slide 13, I'll point out our updated guidance for the third quarter and full year. All guidance completely excludes Euronext and the to-be-sold NYSE technology businesses. You'll note improvement in virtually every element of our expense guidance. Importantly, you'll also note that D&A is two times larger than operational CapEx, which is another important factor when considering the cash generation of our business.

I'll be happy to answer any questions about our guidance or any other topics during Q&A. For now though, I'll hand the call over to Jeff.

Jeffrey C. Sprecher

Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

Thank you, Scott. Good morning to those on the call. Since completing our acquisition of NYSE, we've moved quickly to achieve the objectives we established when we announced our transaction. With many of the strategic changes implemented, we provided guidance related to our business model post-Euronext.

We're working to innovate for our customers amid a time of tremendous change in the industry, and we continue to drive improvements in market structure in each of the asset classes we serve. Through new products and services being introduced, we're well positioned for the return to more normalized volatility levels over time.

Periods of change are when ICE excels and throughout our history we've developed risk management tools and infrastructure that reduces friction in markets and creates efficiencies. In short, we're focused on these objectives to grow and to lead.

While specifics around regulation around the world may diverge, the common theme is that trading and risk management continue to move on exchange and into clearinghouses. Therefore, we're taking our queues from the opportunities that come from this trend rather than from the current period of low volatility.

As you can see on slide 14, we have to continuously evolve ICE to lead global financial markets into the future. With our humble beginnings as an OTC energy market, today we operate 11 exchanges, covering 9 asset classes and have 5 clearinghouses. And we're preparing to expand with the re-launch of Ice Future Singapore and Ice Clear Singapore in the coming months.

With our acquisition of NYSE and Liffe, our markets now include some of the largest markets for interest rates, cash equities, equity options and global commodities. And despite competitors with aggressive payment-for-order-flow programs in our flagship products, our markets remain the venue of choice for risk management due to our breadth of products, liquidity, capital efficiencies and our focus on designing our products around our customer requirements.

We built infrastructure to extend deeper into risk management and work flow activities. We launched ICE Benchmark Administration, which now overseas both LIBOR and ISDAFIX to rebuild confidence in these vital benchmarks. And with the demand for automation, we developed the compliance and workflow tools such as ICE Trade Vault and ICE Link. So taking together the value of integrated trading, clearing, data and post-trade services offers value beyond trade matching, which is why our adjusted earnings per share from continuing operation declined just 4% in the quarter amid double-digit volume declines.

I'll walk through some of our volume trends, which you can see starting on slide 15. In addition to the secular trends that have produced annual growth in ICE's Brent Crude volume, recent geo-political unrest has also driven volumes. In June, ICE Brent ADV increase 18% year-on-year and open interest reached a record all-time high. As we reported this week, Brent volume in July grew 26% year-to-year to 827,000 contracts per day. So you can see we started the third quarter above our 2013 level of 700,000 contracts per day. Longer term, we believe the growth trend is solid, due to our Brent Crude Oil Benchmark's global relevance and the capital efficiencies across our oil complex of more than 400 related futures contracts.

Moving to slide 16, you can see North American natural gas volumes remain depressed. But open interest remains significantly above pre-Crisis levels. The North American natural gas market continues to transform as it adjusts to the new shale supply. The market is still working through how the additional supply will be stored, transported, exported and consumed. Such infrastructure takes time to come online, so this is a multi-year shift in reshaping the U.S. natural gas markets.

This also means that natural gas markets will likely globalize, as projects and regulation to manage LNG transportation and export come online in the next few years. In the meantime, low prices are driving increased consumption as energy producers increasingly switch from coal and propane to natural gas.

The right-hand of the chart is our European natural gas futures volume, which is traded on ICE Index, and includes our UK and Continental European natural gas hubs. Again, in the second quarter, volume more than doubled year-to-year and open interest continued to grow as customers seek efficiency and liquidity of exchange traded markets. Historically, the European natural gas markets have been a bilateral, over-the-counter market. But over time, this business has begun to migrate on exchange.

Now if you move to slide 17, you can see a solid base of volume in our financial futures and options markets. Low interest rates across most of the Eurozone are impacting our euro-denominated EURIBOR futures volume, which is also up against tough comparisons due to strong rates activity in last year's second quarter. This is somewhat offset, however, by solid performance in our UK sterling futures and options contract, where volume and open interest were up 27% and 67% respectively year-on-year in the second quarter due to the changing expectations for UK interest rates.

Open interest across our European interest rate futures complex is up 17% from the start of this year. In addition, with equity markets getting slightly more active, particularly in the non-U.S. products, we saw equities derivatives business expand year-to-year, with solid performance in our MSCI and Russell Index futures contracts.

I'd like to highlight our global Listings business on slide 18, where the New York Stock Exchange continues to lead in capital raising during 2014, including in technology IPOs. NYSE's IPO issuance in the first half of the year is trending above the 2013 record pace. It's up across all metrics and it's up 38% in the number of transactions.

The first half momentum has continued through July and into August with 14 IPOs, raising $7.5 billion in just those five weeks. Year-to-date, over $28 billion has been raised in 82 transactions and that has created $140 billion in new market capitalization. In addition, 26 companies have listed a spin-out or a carve-out business on the NYSE, with more than a dozen yet to come in the balance of the year.

I've had the honor to meet many entrepreneurs and business leaders coming through our building and these IPOs are great moments in a company's history and they're supporting overall economic growth.

We continue to take a leadership role to advocate on behalf of our listed companies about the importance of an improved market structure. To that end, we unilaterally began reducing complexity and filed with the SEC last month to remove 12 order types and to harmonize all remaining order types at our three venues.

Both NYSE President Tom Farley and I testified in front of Congress this summer to ensure the debate is balanced from an issuer perspective. Later this month, the SEC's plan for pilot programs relating to tick size and trade-at are expected to be announced, followed by their implementation to measure proposed solutions.

We're working with the SEC and with our peers to ensure that we're taking positive steps to improve market structure and reduce the complexity that market participants are faced with today.

Turning to slide 19, I want to summarize our progress on our NYSE integration. However, before I begin, I want to make special mention of my counterpart, Duncan Niederauer, who led NYSE Euronext for seven years through significant change and transformation in our industry. As he transitions from the NYSE at the end of this month, I want to thank Duncan for his leadership and recognize his shared vision for the future of NYSE together with ICE. In addition, I'm grateful for his mentoring to Tom Farley over many months, who became the president of NYSE in June.

On the slide, you can see that we've added some new accomplishments to the checklist on our call in May. We continue our customer-centric growth with new products and expanding our global roster of listed companies. We finalized what was a very complex reorganization to separate Euronext and Liffe and then completed the IPO of Euronext, which unlocked significant value for ICE shareholders.

We migrated Liffe U.S. to ICE, moving the GCF repo, Eurodollar, MSCI and metals contracts to other ICE exchanges, eliminating both cost and complexity for our customers. You see we're on track to complete sale of our technologies business in the quarter and our Liffe UK integration is progressing very well. Our work to integrate multiple trading platforms for the U.S. cash equities and equities options exchanges is under way and we've laid out for you the additional synergies available as a result of that and our continued work on the NYSE model.

And we completed significant debt repayment and immediately began returning capital to shareholders, starting a repurchase program for our shares of stock.

This morning, we also announced that we've acquired certain patents and related ongoing patent applications that relates to calculating and making trading decisions, under terms that will allow us to license this intellectual property to others. These patents have been the subject of prior litigation, which resulted in firms having to pay significant settlement fees. ICE decided to make this purchase to allow us to more broadly protect our customers when they make trading decisions that provide liquidity to ICE and NYSE markets.

We're currently developing our own licensing plan and we'll be contacting our customers in the coming months with more information. So as you can see we're not waiting for volatility to return or for business to come to us. We're bringing back our customers new solutions needed to trade, manage risk and comply with regulations at a very dynamic time in our industry.

By focusing on our customers' needs every day, we will grow and in doing that, we will drive shareholder value. I want to thank our customers for trusting us with their business in the second quarter and I want to thank our global team for delivering these results.

And with that, I'll turn it over to Andrew, our operator, for the question-and-answer session.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. [Operator Instructions] The first question comes from Rich Repetto of Sandler O'Neill. Please go ahead.

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

Q

Yeah. Good morning, Jeff. Good morning, Scott. I guess the...

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

A

Good morning.

Scott A. Hill
Chief Financial Officer & Senior Vice President, Intercontinental Exchange, Inc.

A

Good morning.

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

Q

Good morning. The question is on slide 11 and the capital return you outlined. So you can see the buyback of the $700 million over the next what looks like five-and-a-half quarters 'til the end of 2015. And I think most would agree you were aggressive right out of the gate here. But looking at that $700 million, is that sort of written in stone? It appears like it's about half the capability that we think you could buy back reasonably. If the stock stated these types of levels are low, would you get more aggressive than the $700 million?

Scott A. Hill
Chief Financial Officer & Senior Vice President, Intercontinental Exchange, Inc.

A

Yeah. I mean, Rich, you touched on a number of important factors. I mean, how and when the buybacks flow depend on market conditions. It depends on timing of our cash flow. It depends on where our leverage levels are. But our expectation, the reason we showed you the chart is that over the course – between now and the end of 2015, we think it's likely that we will buy back the $700 million. We will continue to pay the dividend.

And as I step back and think about a payout of $1.7 billion, which is what that total will be over the course of 2014 and 2015 or even the $1.15 billion that will be paid out over the next 17 months, I'll let you guys figure out what your 2015 estimate is, but you're going to calculate that out to somewhere around a 60% to 70% payout. I think that's very strong. I think we've been very consistent in saying that we are going to leave some capital so that we can continue to invest in the business, so that we can remain flexible to expand through strategic M&A where the return on investment is appropriate.

So it's not ever been our intent to calculate how much cash we'll generate and to pay 100% of that out. In fact, I think that leaves you in a position that when the right opportunity does come along, you've got to use an expensive currency like stock to go make a deal, as opposed to having the cash or the debt capacity to do it.

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

Q

Understood. That's very helpful, Scott. And I guess my one follow-up, Jeff, is the volume picture right now, the thing that is sort of impacting numbers is what's going – the European interest rate volumes. And I guess, I just wanted to get your opinion on, do you think this is – what do you call it – extended period where it looks like Europe is just starting to go into their – or potentially going into the QE phase that we're coming out of. And you see a big divergence between short-term interest rate volumes in Europe and the U.S. And are we in for something that's – the stagnant volume picture, how long do you expect it to last over there?

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

A

Well, I wish I had that crystal ball. I mean, we could...

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

Q

You got a crystal ball on a bunch of other stuff, but anyway...

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

A

Thank you. Thank you. I'll take that as a compliment. It's very, very clear that the short-term interest rates are highly driven by Central Bank policy and that you've seen the U.S. Central Bank policy moving U.S. short-term rates. We've seen now the UK Central Bank moving UK short-term rates and our respective volume in trading. And I agree very much that our euro-denominated interest rate complex is highly sensitive to what the ECB will do with short-term rates, which is lagging those other two Central Banks.

That being said, we saw the opportunity to acquire a fabulous rates franchise, one of the best in the world, at what we think are historic lows in volumes and, hopefully, ride that trend back up to the benefit of our shareholders and our customers. And we are going to use that footprint there to expand what we do in the financial markets. So we do not intend to be wholly dependent on European Central Bank policy as we build out our franchise.

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

Q

Okay. Thank you very much for the color on both those questions. Thanks.

Operator: The next question comes from Ken Worthington of JPMorgan. Please go ahead.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning. Maybe first, Jeff, more of a big picture question. The U.S. is moving towards energy independence. What are the implications for ICE's energy trading volumes? In particular for Brent, does shipping east versus west change the way Brent is hedged to the benefit or detriment of volumes? For WTI, is shale oil going to be benchmarked to TI or to another marker? And how does that impact your business both in WTI and Brent?

And then in gas, we see the longer-term benefits to volumes of what's going on in gas. But is there anything in the near-team in terms of implications of greater gas production consumption that would benefit or further hurt gas volumes in the U.S.? Thank you.

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

A

Wow, that's quite a good question. Thank you. I think first of all, obviously, the United States has a huge opportunity to become more energy independent in terms of its supply resources. But becoming energy independent does not mean that we become disconnected from the world's pricing of energy. What we're seeing, for example, is a big influx of natural gas sensitive businesses into the U.S., particularly petrochemical businesses in the Gulf states, refining of oil in the Gulf state, whose goals and objectives will include export of their finished products out of the United States into a world market. Those exports and participation in global markets for LNG and refined oil products will ultimately drive the value of the raw material back home here.

You're correct in that shale oil is not particularly well correlated to WTI. WTI is a pipeline-borne oil, and the shale oil, because of the transportation infrastructure, is moving by truck and other means and is making its way into the Gulf and, oddly, is probably more highly correlated with Brent, which is a seaborne crude that happens to also come in to the Gulf.

As a result of that, I would expect that the market is either going to want to develop a Gulf Coast crude marker or it's going to – or the WTI marker itself will be modified to include other grades of oil to make it more correlated to where oil may come in the future in the United States. Or we may continue to see shale oil trade as a differential to some combination thereof.

But that oil complex is so highly correlated and related, both the WTI and Brent benchmarks are very important and it's why we want to trade both, and I think all of this movement will only be more positive for our volumes because it's massively expanding. It appears the footprint of energy-dependent users that are going to want to hedge these global prices.

We see that showing up in the request for user IDs and passwords and the increased demand for the data that we sell around these markets.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Great. Thank you. And then just very simply, ICE launched a host of new interest rate products in Europe. If you had to get meaningful traction – I know it's really early days, is there any desire to get more aggressive here? And does Central Bank policy just make it harder for those to work? And is it just not the right time quite yet?

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

A

Well, you should know that the plan that we alluded to in our prepared remarks to integrate Liffe means that we intend to move all of the Liffe – remaining Liffe European products on to a new matching engine and into a whole new installation that we've built using legacy ICE systems in Europe. And we launched these new products on the old Liffe matching engine. And we have been telling our customers that that old system is going to be abandoned, and we have been working with that customer base to connect to the new system and to – and they are actively doing testing right now and getting ready for a new launch.

So to a certain degree, we launched those products because we wanted to be in the market. But they are severely handicapped by the way we've done it. And we would expect really our push into these markets to be contemporaneous with being on a more widely distributed and faster and more reliable platform that we have in the ICE matching engine.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

All right. Great. Thank you very much.

Operator: The next question comes from Michael Carrier of Bank of America Merrill Lynch. Please go ahead.

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

Q

Thanks, guys. Scott, just on the synergies and the expense outlook, just given the volume backdrop, I guess it's slightly difficult to kind of parse the synergies related to the deal and then just the core expenses, given the revenue or the volume backdrop. But just wanted to get your thoughts on how much flexibility or variability do you have in the model if some of these sluggish volumes, whether it's in nat gas rates, continue for some time.

Scott A. Hill
Chief Financial Officer & Senior Vice President, Intercontinental Exchange, Inc.

A

Yeah, it's a good question, a couple of thoughts. So first of all, I think you got to remember that we do have a pay-for-performance culture. And as you've seen over the past couple of years, to the extent our results come in below where our expectations are, we've adjusted our compensation accordingly.

I think if you look at the trend due the first six months, we're a little bit behind where we need to be to get to those objectives. As we monitor the second half of the year, if that doesn't start to recover, you'll likely see, just as you have the past couple of years, an adjustment on that level. And as you've seen in the past, that's not an unmeaningful adjustment. And again, I think it aligns our team and our shareholders because the pay is aligned with performance.

And the second related thought is – and we've said a couple of different ways in the prepared remarks is we do think this is a cyclical issue and not a structural one. And so what we don't want to do is overreact and start to cut off investments and things like ICE Benchmark or Singapore or Cetip, where we believe those are the future additional growth drivers that we're going to see.

That notwithstanding, if the volumes remain soft for an extended period, we can look at dialing back a little bit on some of those investments. And then at the end of the day, if it does become more sustained, I look at it as we have a $1.5 billion expense base in over 3,000 resources. There's absolutely opportunity to get more efficient in that environment.

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

Q

Okay. That's helpful. And then quick follow-up, just on the capital management or you have cash deployment. When you think about 2015 and even longer, like how should we think about like the dividend level versus increasing the dividend as earnings grow? Like meaning, is that the strategy, like a certain payout? Or will we be steady state and focus on buybacks in the near-term?

Scott A. Hill
Chief Financial Officer & Senior Vice President, Intercontinental Exchange, Inc.

A

Yeah. That's a conversation that Jeff and I have and have had with our board and will continue to have to really look at – I think embedded in your question is: what's the optimal way to return cash to shareholders? As I've said a number of times, the great thing about the cash generative ability of this business is we can return meaningful capital to shareholders, and invest in the business and continue to do strategic M&A. So we don't have to pick one or the other.

As we think about the capital returned to shareholders, the mix of dividend versus share buyback really is going to depend on market conditions, on tax policy, on a number of factors. As we sit here today, I wouldn't expect a big change in the balance. The focus is as indicated on the chart. It is on share buyback, but I wouldn't predict in 2016, 2017, 2018 as you get out in time. I don't know what's going to be optimal with those periods, but we are committed to a meaningful share return – capital return to our shareholders.

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

Q

Okay. Thanks a lot.

Operator: The next question comes from Niamh Alexander of KBW. Please go ahead.

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

Q

Hi. Thanks for taking my questions. And if I could touch on credit derivatives, you had some nice revenue there. You've really seen that kind of rebase of the tiering as more of Europe came onboard. But we're still a couple of years out of kind of regulation being fully implemented over there for the trading and the clearing. So can you give me an update on where you are now versus maybe where you think you can get to? And then what's going with a futures product?

Scott A. Hill
Chief Financial Officer & Senior Vice President, Intercontinental Exchange, Inc.

A

Yeah. I'll touch on the first part, Niamh. So as I kind of mentioned, entering the year, we were very encouraged by what we saw in our January CDS clearing results because we were seeing meaningful uptick from the buy side. We were actually even seeing meaningful uptake from some European customers in those results and that trend has really continued.

Second quarter dialed back a little bit from the first quarter, but as you know, there's an index roll in March, so the first quarter tends to be above the second quarter anyway. But as I look at it, where we are for the first half, we're trending right towards where I thought we'd be, which is probably around $90 million of revenue or so this year. That's 15% more than what we had last year, and that was 30% more than we had the year before that. So I think the trend is right, and I think you touch on an important point, which is we still don't have a mandate for European buy side clearing.

There's still a number of products. I talked about some of the products that we rolled out on Sov, which adds to Turkey and a number of others that we've done. So there's still a meaningful opportunity for more product. The European client isn't even mandated yet, and we continue to see growing interest from clients here in the U.S. So I'm not going to give you a number other than to say it was $60 million, then it was $80 million, and now it's on its way to $90 million, and I think that the trend is up.

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

A

And Niamh, this is Jeff. With respect to the futures product, I think you are aware that we tried and failed to launch a futures product. And so we've gone back to the drawing board to figure out why we failed and what we can do to make a re-launch more successful, and it's really two things. One, we're redesigning the product and that's largely complete. We've had huge amounts of customer consultations to get input into exactly what the market thinks would work.

And secondly, we're really waiting for the timing. And it was somewhat implicit in your question, which is we're looking to launch a true futures contract, in other words, a two-way bid-offer, continuously traded, completely transparent, highly-liquid contract. This is not a swap future. We already have a dominant position in the swaps market, as you know.

So the question is will the market want to transition fully to a completely transparent liquid two-way bid-offer market? And we believe the market wants to do that. People are interested in that and the question is: what is the timing? And it will largely be driven by the need to get to move forward due to regulation and Basel rules kicking in.

That all being said, we think that that launch is probably this year still and that the market will support a launch later this year, as people are starting to think about 2015 and 2016 organization of their trading activities.

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

Q

Okay. Appreciate the update. Thank you. And if – for my follow-up, if I could just come back on the capital distribution, just because you've such powerful cash earnings and you have been acquisitive historically even before the NYSE deal with smaller ones that you can kind of fund as well. But if you don't come across some deals or some M&A, is there additional capacity over and above kind of the guided $750 million of potential share repurchases, like if you don't come across some deal opportunities?

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

A

I think, Niamh, the way we approach M&A is we always look at will it meet our return on invested capital thresholds, and actually that's historically how we looked at buying shares of ICE. And we loved having the opportunity in the past to buy on dips. So I think to the extent we have excess cash here, we'll be thinking what is the best and highest use for shareholder value and where can we deploy that either through our own share buybacks or possibly some other person's share acquisitions. But the point there being that we will deploy that capital for high shareholder returns. I don't think we're going to be hoarding it, if you will.

Scott A. Hill
Chief Financial Officer & Senior Vice President, Intercontinental Exchange, Inc.

A

And just, I mean, two metrics you guys may be interested in, the payout ratios in our industry average around 60% to 70%. And again you do the math, I think that's what you're going to see what we're talking about. In the S&P 500, something closer to 30%, so it's not an unmeaningful payout ratio that we're talking about.

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

Q

Fair enough. I'll get back in line. Thank you.

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

A

Thank you.

Operator: The next question comes 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, Intercontinental Exchange, Inc.

A

Good morning.

Alex Kramm
Analyst, UBS Securities LLC

Q

Just want to come back to the volume picture and I know it's been asked several times and, obviously, you proactively talked about the whole structural versus cyclical. And I agree with the cyclical side and – but you're also very quick to point out the log-ins continue to go up and so forth. So very much appreciate it. But can you talk a little bit about the negative side? I mean, there are going to be – there are some structural things that I'm sure you see and maybe some things you can even share like has the market participation of certain members changed at all?

In the energy side, something that we're hearing all the time is like there's not liquidity on the long end of the curve anymore. And I know a lot of your trading is short end, but it's got to impact the market. So maybe give us a little bit of the negative things you see as well.

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

A

Sure. Look, there's no question that there's a – particularly, starting with commodities where you targeted your question, there's definitely a change going on as assets are coming out of banks and people are coming out of banks. And we see those assets going to sort of a more highly identified new class of holder, which are these merchant energy companies. These companies have been customers of ours for a long time. We know their senior managements very well, have ongoing dialogue with them, but many of them are really now emerging as very large, significant players in the global commodity arena.

And they are putting assets together. They are active hedgers. And what we've seen is open interest going up. And as soon as there's any hint of volatility in the market, there's just an amazing explosion of volumes. I mean, the kind of volatility that has driven our record Brent volumes, for example, has not been particularly huge. I mean, if you really look at the price of Brent, it's actually pretty amazing how with all the global conflict going on and given where the conflict is going on that Brent as an absolute price remains in a range that is reasonable to most of us as consumers.

So it doesn't take a lot of volatility to really spike volumes for us, and that's because these assets and traders are sitting, waiting for volatility. We have also seen this trend where traders in Europe, for example, who are professional traders, and are not seeing as much volatility in Europe, are coming cross-border and they're looking for volatility. So we see people moving from their traditional asset class into other asset classes as they seek volatility to trade. And I see that trend in our own markets. I can see it in sub-context in some of our competitors' numbers as well.

But again, that says that these people are there. They're ready; they're poised for when their traditional markets come back. They're not leaving the market. That's why we keep getting this sense that this is – while there are some structural changes that are going on in terms of volume capability of the market to use risk management services that we provide, it's sitting there ready to go. And that's why we continue to build out a product suite for those people.

Alex Kramm
Analyst, UBS Securities LLC

Q

Great. That's helpful. Thank you. And then I guess staying on the volumes, and I know someone already asked about the interest rate business and thank you, you talked about, obviously, the ECB action or non-action, whatever you want to call it. But is there anything else you'll be looking for to maybe accelerate that business either because of new products? But also, is there any – when you talk to traders, is there a sense that maybe in a couple of months, even if we stay in this environment, the markets normalize and some volumes that might be depressed right now are coming back?

Or even, let's say, if the U.S. or the UK is getting more active in terms of rate hikes that it actually impacts trading in ECB-related products as well? Or is it really wait until the ECB does something, in your opinion?

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

A

It's a good question because when we talk to people in the markets, there is a sense of forbidding that it feels like something is going to happen. And – but no one can tell what. And I think it's broadly as you read articles about the markets that you see a lot more bearish sentiment coming in and people talking about that there are unintended consequences of global economic and Central Bank policy that are yet to be discovered. And when we talk to people, that's kind of the sense.

And a lot of traders trying to come to understanding of where the next risk management issue may arise and positioning themselves for that, which is why I think open interest is going up. I mean, there is positioning going on that is anticipatory of some kind of change. It's not anticipation of flat line Central Bank policy into the foreseeable future. It's setting up for an unintended consequence of that policy.

Scott A. Hill
Chief Financial Officer & Senior Vice President, Intercontinental Exchange, Inc.

A

And I mean, to a large extent, we're setting up too. The earlier question asked about the new products we launched. We're launching new products. We're building out clearing capabilities. We're building out our rates franchise generally. So while we can't necessarily do anything to make rates move right now, we're definitely not waiting or sitting on our hands. We're investing to build out the franchise, so that when all the things Jeff just talked about start to flow through, we're well positioned with a very comprehensive rates offering.

Alex Kramm
Analyst, UBS Securities LLC

Q

Very good. Thanks.

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

A

Thank you.

Operator: The next question comes from Kenneth Hill of Barclays. Please go ahead.

Kenneth W. Hill
Analyst, Barclays Capital, Inc.

Q

Hey. Good morning, everyone.

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

A

Morning.

Scott A. Hill
Chief Financial Officer & Senior Vice President, Intercontinental Exchange, Inc.

A

Morning.

Kenneth W. Hill
Analyst, Barclays Capital, Inc.

Q

First one I wanted to start with, was hoping to get a little bit more of an update on the Benchmark Administration. You guys recently assumed some administrator roles for some of the ISDA benchmarks. You've got the LIBOR in there. So what's the kind of outlook for that and how do you guys think about monetizing some of those opportunities longer-term?

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

A

Well, it's a good question. So we've been making significant progress on those businesses. We like those businesses because we're really starting with a nucleus that we think we can grow and build, as opposed to acquiring mature benchmarks, which are trading at very, very significant valuations right now.

What we've done so far is we started by moving LIBOR into our own auspices. And then just recently, we have now launched technology that will allow data gathering to come in and be more automated and auditable. We are still gathering the kind of data to create LIBOR that people have criticized.

And the next step is to expand the way LIBOR is calculated to include more transactional data – correlated transactional data. And there is a process going on right now with an advisory group that is very, very broad and industry representative of what the next changes will be. But we needed to get the product moved over to ICE and then get the infrastructure in place, which it now is. So I think you will start to see the true evolution of LIBOR, along the vein that the market is calling for.

ISDAFIX has now moved over to us. Again, it's early days. We're just getting started. We intend again to gather transactional data to improve ISDAFIX. That means that we're going to be receiving data from a number of the MTF facilities there. We're working to automate the trade capture of that and analytics around that that we'll use to publish ISDAFIX.

With respect to the monetization of those things, we began a licensing program that we've rolled out. It's caught some people by surprise. It's interesting. There has been a lot of criticism by people that they wanted LIBOR to be better, but then when they're asked to pay for it, they're surprised. It shouldn't be a surprise. These are relatively modest licensing fees for major users of LIBOR. We've started that licensing program right now. We continue to take input from people. We're fine tuning it.

We're finding – it's amazing how broad the use of LIBOR is in the world. So we're getting a lot of feedback from different kinds of users on how they use LIBOR. And that's informing our licensing practices, which we continue to evolve. So you'll see that it's going to take multiple years for all that, I think, to roll out and start to bed itself. But that process has been started by us.

Kenneth W. Hill
Analyst, Barclays Capital, Inc.

Q

Okay. Appreciate all the color there. I guess my follow-up would be kind of in another development area. You mentioned in your prepared remarks some of the upcoming ICE Clear Singapore launch. Kind of wondering what your outlook is for that, kind of what the customer feedback has been as you've been laying the seeds for that? And how we should think about it going forward?

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

A

It's great. I've been there a number of times myself to talk to customers and we have people on the ground that are working every day in that regard. There's actually a lot of excitement around this launch and I mean that genuinely. There are some very, very interesting risk management opportunities in Asia. There are geographical issues, and tax issues, and political issues that really drive the way those businesses work throughout the Asia region that certain types of contract design may be able to solve and, therefore, provide meaningful volume to us and meaningful risk management tools to the market.

So there is a lot of input going in right now on opportunities. Things that we have never thought of ourselves, never dreamed of, but that our customers are bringing to us as tools that they would love for us to offer. We've got a very good team there now; we've been building it out. We're putting our own people in place, working very, very closely with the regulator, going through with the regulator a litany of product offerings that we intend to launch and setting the stage for the regulatory approval of those things.

So we'll have more to say about it as we move through the year, but progress is going well and we're really, really fortunate to have that infrastructure there under our banner.

Kenneth W. Hill
Analyst, Barclays Capital, Inc.

Q

Okay. Thanks for taking my questions.

Operator: The next question comes from Jillian Miller of BMO Capital Markets. Please go ahead.

Jillian Miller
Analyst, BMO Capital Markets (United States)

Q

Thanks, guys. Just wanted to get your thoughts on CME's acquisition of Trayport. And from your perspective, does this impact your competitive positioning for energy in Europe? And specifically thinking does this give CME certain advantages, especially when going after new products that may be transitioning from OTC to a more standardized futures, kind of like European nat gas?

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

A

Thanks for the question. First of all, whatever process the Board of Directors went through to sell that asset, we were not a part of it. So I really have not looked at that business particularly closely. We were not afforded the opportunity.

But that being said, we've paid a lot of attention to comments that have come out around that acquisition and are confused, I would say, at best. We're hearing and have been told directly that the company is going to run as an independent autonomous unit and those drums seem to be being beat, but then – and that is the message that's being delivered to us and other users of that platform.

But then, separately, shareholders are being told that it's highly strategic, that it's going to provide a lot of information and somehow inform how new futures contracts and clearing will be done by its owner. And those two things are in direct conflict. And so until we see what remedies are going to be put into place and how that business intends to be managed, it's very, very hard to answer your question.

Jillian Miller
Analyst, BMO Capital Markets (United States)

Q

Okay. Fair enough. And then just moving over to interest rates, you have launched a bunch of new products and moving forward with some of these benchmark administrations. And the one thing that we haven't heard a whole lot about is interest rate swap clearing. And I know, obviously, you've got a lot on your plate with the transition and technology changes going on. But I was just wondering what your plans are there. Is it still something that you guys are thinking about offering? And if so, like what's the timeline? When do you need to start working on that?

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

A

Well, we don't have anything to announce today. But I will tell you that we want to have a rates franchise and we're looking at where are there parts of the market where we can do something that's incredibly innovative.

We're not a company that just says I'm going to launch another guy's product and pay for order flow. That's just not something that we've ever viewed as a market model. We like to figure out if there's something unique and novel that we can do that would really bring benefit to our customers. So we're having lots of conversation.

I think, as was mentioned earlier in the call, the movement of the swaps business into clearing is taking probably longer than many of us thought it would in terms of the regulatory mandates on how this is going to work. Right now, there is a large dialogue going on between global regulators about how global regulation of the swaps market is really intended to work and how information and oversight is going to be shared.

And until there's a little more clarity as to how that's actually going to unfold, particularly between the U.S. and Europe, it's very, very hard to really get your arms around what a good OTC clearing franchise might even look like. We do think that those issues are on the table. They're under active conversation and that we'll have more visibility I think, hopefully, by the end of this year.

Jillian Miller
Analyst, BMO Capital Markets (United States)

Q

Okay. Thank you.

Operator: The next question comes from Chris Allen of Evercore. Please go ahead.

Chris J. Allen
Analyst, Evercore Partners (Securities)

Q

Morning, guys.

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

A

Morning.

Scott A. Hill
Chief Financial Officer & Senior Vice President, Intercontinental Exchange, Inc.

A

Morning.

Chris J. Allen
Analyst, Evercore Partners (Securities)

Q

Most of my questions have been answered. I guess just one follow-up, just...

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

A

So then were you just calling to chat, is that it?

Chris J. Allen
Analyst, Evercore Partners (Securities)

Q

Just want to follow up on kind of the expense outlook. Obviously, Scott, you noted the flexibility there as we kind of move through the back half of the year and – you noted the first half top line was a little bit below expectations. Should we be thinking about from a modeling perspective, modeling along the lines of your margin guidance for the year in terms of building in our expectations around the back half from a top line and then getting to that margin level? Is that kind of the right way to think about it?

Scott A. Hill
Chief Financial Officer & Senior Vice President, Intercontinental Exchange, Inc.

A

Yeah. I mean, Chris, I always hesitate to guide to a margin in any particular quarter. What we had said is we kind of expect it to be 48%, 49%. We're tracking that through the half. But I don't think that's an unrealistic expectation, as you look at the year. I think if you think about modeling, the importance is, again, if we don't see the business start to recover a little bit, there will be an adjustment in compensation.

I can't call that right now or I would have booked it in the second quarter. But it's clearly something that would be a reduction to that expense forecast. I'll note though that we would then restore that in 2015. So that it's not a synergy because our expectation as we enter every year is we're going to meet our objectives and pay 100% of our bonus out.

But as you're modeling second half, again, I think we've given you some pretty clear guidance on what we think the quarters are going to be. It doesn't include any adjustment in the bonus. But again, if the business doesn't start to recover, the pay-for-performance nature of our compensation will kick in and you'll see comp come down.

Chris J. Allen
Analyst, Evercore Partners (Securities)

Q

Great. Thanks a lot, guys. I'm good.

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

A

Good talking to you.

Operator: And the next question comes from Alex Blostein of Goldman Sachs. Please go ahead.

Alexander V. Blostein
Analyst, Goldman Sachs & Co.

Q

Thanks. Good morning, guys. So, Jeff, a follow-up on the oil markets and I think you alluded to that as well that given all the geopolitical unrest, it is a little surprising that we haven't seen more volatility in the oil space. Why do you guys think that is?

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

A

It's hard to know. I think the market is becoming unfortunately used to political unrest, particularly in the Middle East and has never fully embraced, for example, a euro or Russian marker as a way of calculating oil. The Russian oil production, just taken up on its own, could be a global marker. But the market has never fully embraced that as a marker because of the geopolitical activity and has urged us to continue to develop the way the oil infrastructure is reported and risk managed through other venues. And I see that kind of playing out right now.

There's no question that the back end of the curve, if you look at price adjustments in oil, I think the back end of the curve is up something like 13% or double digit, low double-digit percent and so the market is sending some longer-term price signals that they do think that there will be supply impact as a result of what's going on here.

Scott A. Hill
Chief Financial Officer & Senior Vice President, Intercontinental Exchange, Inc.

A

Yeah. And I think, I mean, just numbers-wise again. July volumes were up 26% year-to-year for Brent. Open interest is at record levels. I mentioned in my prepared remarks that translated to very strong energy revenue. So even despite a specific volatility change, I would suggest there's been a very evident interest change with the events that have occurred recently.

Alexander V. Blostein
Analyst, Goldman Sachs & Co.

Q

Got it. And then a quick one, Scott, for you on the expenses again. When we think about the leftover expense savings, so call it $310 million, I guess or so which you'll see at the end of this year, what's the pace, I guess, of the recognition of these savings?

Scott A. Hill
Chief Financial Officer & Senior Vice President, Intercontinental Exchange, Inc.

A

Yeah. So, I don't think we're really in a different place than we've talked about before. I think as we enter into the first quarter, as we showed on the chart, I think we're on pace for $350 million of the original $500 million. I still think it's 90% as we exit 2015 and so that'll be reflected in the first quarter of 2016 run rates. I think if you think about the $50 million additional synergies, my current expectation is you probably see us realize 30% to 40% of that as we go through 2015, with the remainder during 2016. So the percentages don't move materially in terms of rate and pace.

But again, I think we're well on track by the time we get to the end of 2016 to have removed the $550 million, which as I noted it is well over 40% of the original NYSE Liffe expense base.

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

A

And I think another way to think about it from an operational standpoint, which is how we run the business, is our next big move is to transition the European Liffe products onto the ICE platform. We're waiting until after the summer European holidays to begin that process.

As soon as people get back in September, work begins in earnest moving into October, November. Once we've moved those products over, we no longer need that platform and all of the support that goes around it. There will be people exiting. We also are selling off a number of technology businesses once those leave. There are support people and others that have been left behind that we'll be exiting. And so we're going to be going through a process as we reorganize these businesses and it just sort of looks and feels like the end of the year when a lot of that change will really kick in for us.

Alexander V. Blostein
Analyst, Goldman Sachs & Co.

Q

Got it. Thank you, guys.

Operator: The next question comes from Dan Fannon of Jefferies. Please go ahead.

Daniel T. Fannon
Analyst, Jefferies LLC

Q

Thanks. Actually, my questions have all been asked and answered.

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

A

Great. Thanks, Dan.

Operator: The next question then comes from Chris Harris of Wells Fargo. Please go ahead.

Chris M. Harris
Analyst, Wells Fargo Securities LLC

Q

Thanks. Good morning, guys. So another question on the volumes, really just wondering, as you guys see who's trading in your markets, how the commercial hedgers are actually behaving in this kind of low volatility environment? And the reason I ask is you wouldn't think that really depressed volatility would be impacting their activity. But you guys would obviously know better than me, so any light you could share on how that customer group is behaving would be great?

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

A

Well, it's interesting. They're a part of our market, and they continue to be active in terms of gathering data and logging in and what have you. But – and open interest levels. But the reality is that these are people that are commercial guys are taking longer-term views on what's going to happen. They're not in actively trading necessarily every day. So we do see them sort of setting up for some future event, which it means buy open interest, longer-dated and sit and wait for events.

Shorter-term traders, liquidity providers and others that trade through volatility as a result don't have as much to work against under that scenario. So that's why you see sort of depressed volumes, particularly in front-dated products.

Chris M. Harris
Analyst, Wells Fargo Securities LLC

Q

Great. One other follow-up for me – thanks for taking all these questions, by the way. European natural gas, I mean, I know it's a small market for you guys, but clearly growing very nicely. Jeff, can you help us understand the market setup there, I mean, who the competitors are for European nat gas? And then how big do you think the potential market is as more of those volumes kind of migrate to exchange?

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

A

Well, it's interesting. One thing that may or may not be known is that when the EMIR legislation was passed, which was basically the European's equivalent to Dodd-Frank, gas and power were exempted from clearing, the clearing mandate. So those have historically been bilateral markets and they will, under the new regulatory regime, continue to be able to be bilateral markets. And so a lot of electric utilities and gas utilities that have good balance sheets have always continued to trade those bilaterally.

What's changing is the way banks and other counterparties are margining each other in the bilateral market. And at some point, it becomes somewhat equivalent to putting it in a clearinghouse. And as people put business into a clearinghouse, we can look at their entire portfolio of gas, power and oil and related products and give them meaningful margin offsets. And also the clearinghouse allows us to extinguish contracts. If you buy and then sell and put it in a clearinghouse, you have gone completely off-risk because we've netted the two and extinguished them, which is not the case in the bilateral market.

So people that are paying more attention to bankruptcy concerns and the fallout of the MF Global collapse and the like are generally trending towards moving that business on exchange. We have lots of competition, and new competitors seemingly announcing every day, so none of that can really detour us. It's why we bought the Endex exchange. We wanted the Continental European people and infrastructure that had close relationships in that market. And all of that has really worked to our advantage and has helped us grow the business.

I suspect we'll have people coming in. They'll be paying for order flow. They'll be doing all the nonsensical things that happen in other markets, but none of that really has seemed to have any negative impact on us. And frankly, some of it has probably overall expanded the market and, in a backhanded way, inured to our benefit.

Chris M. Harris
Analyst, Wells Fargo Securities LLC

Q

Interesting. Thank you.

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

A

Thank you.

Operator: And our last question today comes from Akhil Bhatia of Rosenblatt. Please go ahead.

Akhil Bhatia
Analyst, Rosenblatt Securities, Inc.

Q

Hey, guys. Good morning.

Scott A. Hill
Chief Financial Officer & Senior Vice President, Intercontinental Exchange, Inc.

A

Hi, Akhil.

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

A

Morning.

Akhil Bhatia
Analyst, Rosenblatt Securities, Inc.

Q

Could you just give us a sense on how much cash you expect to receive from the sale of the technologies businesses? And how much cash you spent on the patent acquisitions?

Scott A. Hill
Chief Financial Officer & Senior Vice President, Intercontinental Exchange, Inc.

A

No. We don't – we haven't disclosed those amounts, Akhil. So unfortunately, I can't provide that. I will tell you that with regards to the NYSE technology sale, that's an additional source of cash that we'll be putting to good use either through capital returns or investments in our business. But we haven't disclosed those amounts publicly.

Akhil Bhatia
Analyst, Rosenblatt Securities, Inc.

Q

Okay. And then just to follow up, what types of M&A opportunities are you seeing out there? Is there anything you're particularly focused on? Or what are you seeing out there?

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

A

Well, there've been a number of – we've been invited into a number of very sort of high-profile dispositions, particularly a number of things by banks and others that are going to auction. We have declined to participate in a number of them simply because we haven't been able to meet our return on investment thresholds. And some of them have been amazing franchises and very interesting things, but we don't feel like we should destroy shareholder value in order to own them.

So it does seem to be a pretty active market for things that are coming up for sale or what have you, but we really haven't necessarily been participating. We have a buy versus build strategy around here. So we look at where do we want to go, and then once we determine where we want to go, we figure out how quickly can we build it or are there parts of it that we need to acquire from others and are those available to us. And so that's really what drives our thinking here.

And it's worked well for us and created a lot of value for shareholders over a period of years. So nothing has changed in that regard. But it has been interesting to see that sort of some of the high prices that have been discovered for some of the other assets that have traded recently to our peers.

Akhil Bhatia
Analyst, Rosenblatt Securities, Inc.

Q

Got it. Thank you.

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

A

Thank you.

Operator: This concludes our question-and-answer session. I would like to turn the conference back over to Jeff Sprecher, Chairman and Chief Executive Officer, for any closing remarks.

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

Thank you all for joining us this morning, and we'll continue to keep you apprised of our continued progress. Have a good morning.

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