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Intercontinental Exchange, Inc. (ICE)

Q4 2015 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Intercontinental Exchange Fourth Quarter 2015 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. Please note today's event is being recorded.

I would now like to turn the conference over to Kelly Loeffler. Please go ahead, ma'am.

Kelly Loeffler

Senior Vice President, Corporate Communications, Marketing & Investor Relations

Good morning. ICE's fourth quarter and full year of 2015 earnings release and presentation can be found in the Investors section of 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 2015 Form 10-K.

In our earnings supplement, we refer to certain non-GAAP measures, including adjusted income, operating margin, expenses, EPS, EBITDA and tax rate. We believe our non-GAAP measures are more reflective of our cash operations and core business performance. You'll find a reconciliation to the equivalent GAAP term in the earnings materials and an explanation of why we deem this information to be meaningful as well as how management uses these measures. When used on this call, net revenue refers to revenue net of transaction-based expenses, adjusted net income refers to adjusted net income from continuing operations, and adjusted earnings refers to adjusted diluted continuing operations earnings per share.

With us on the call 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

Thank you, Kelly. Good morning, everyone, and thank you for joining us today. I'll begin on slide four, which highlights another record year in 2015, our 10th consecutive year of record revenues and record adjusted earnings.

During the year, we delivered strong volume growth in our global commodities business, double-digit revenue growth in data and listing, synergy realization ahead of pace, margin expansion, outstanding earnings growth and strong returns on invested capital. And we delivered these results while investing in our diverse global businesses, making strategic acquisitions of Interactive Data Corp. and Trayport and generating over $1.3 billion in operating cash flows, which enabled us to return nearly $1 billion to shareholders.

Consolidated net revenues grew 8% in 2015 versus the prior year. Transaction revenues were flat versus 2014 despite solid growth in our commodities and cash equities markets. We grew our data services and listings revenues 26% and 10%, respectively. This solid revenue growth coupled with expense discipline enables adjusted operating margins to expand 4 points over the prior year to 59%. All of this allowed us to deliver $12.15 in adjusted earnings per share, a 26% increase versus 2014.

Now, let's turn to slide five, where I'll discuss our fourth quarter performance. Revenues of $875 million included $50 million from Interactive Data Corp. and Trayport, which we closed in mid-December. Our revenue growth in the fourth quarter was once again driven by strong growth in data and listings. Commodity futures and U.S. cash equities revenues also grew well in the quarter. Adjusted operating expenses were $364 million, including $33 million from Interactive Data Corp. and Trayport. Adjusted operating margins were 58%. Our expense discipline and top-line revenue growth helped us deliver a record $3.27 in adjusted earnings per share in the fourth quarter, a 26% year-to-year increase.

Please move to slide six, where you can see further delineation of the diverse revenue streams that contributed to our record fourth quarter. While transaction and clearing revenues were flat year-to-year, both commodities and U.S. cash equities grew 3%. It's also worth noting that while total financial revenue declined in the fourth quarter due to lower equity option and the CDS revenues, revenue in our interest rate futures complex was up 5% versus last year. Data revenues increased 35% in the quarter, including the addition of the Interactive Data Corp. and Trayport. Excluding the $50 million in revenue they contributed, our data revenues would still have risen 9%. Finally, listings revenues had another record and was up 8%.

Slide seven shows revenue mix on the left side of the slide and, on the right, our fourth quarter adjusted operating expenses. We provided a pro forma version of this chart, which includes Interactive Data Corp. and Trayport for the full fourth quarter on slide 18 in the appendix. As shows on the left side of slide seven, transaction revenues made up 59% of our fourth quarter revenues, and data services comprised 29%. On a pro forma basis, though, you'll see that data services would have made up 43% of revenues, and transaction revenues only 48%.

Going forward, we expect data revenues of $470 million to $480 million in the first quarter of 2016, with additional sequential growth as we move through 2016. I also want to mention that we intend to enhance our financial reporting starting in the first quarter of 2016, when we expect to report two business segments; our trading and risk management segment, which includes our transaction-based execution and clearing businesses; and a data and listings segment, which includes our subscription-based revenues. We'll provide more details to ensure that you have good transparency as we make that transition during the first quarter.

Shifting to the right side of the slide, you see that fourth quarter adjusted operating expenses totaled $364 million, including $33 million related to Interactive Data Corp. and Trayport. Excluding those expenses, our adjusted operating expenses would have declined 2% year-to-year due to real estate consolidation and further integration of our corporate functions. This strong expense management once again reflects an acceleration of the realization of synergies and provides a solid foundation to deliver the remaining synergies related to the combination of ICE, NYSE, Interactive Data Corp. and our other recent acquisitions.

For 2016, we expect operating expenses between $2 billion and $2.03 billion. This includes another $75 million in synergies, which is roughly one-third of the total expense reduction we intend to deliver over the next three years. The expense guidance also includes approximately $45 million largely related to compensation increases, and roughly $30 million for investments in new product development, like the new ICE U.S. Treasury Index Series, as well as technology upgrades and enhancements to our cyber-security platform.

The rest of our 2016 guidance can be found on slide 19 in the appendix. We've also included an update regarding our synergy realization on slide 20 in the appendix, where you'll see that we ended 2015 with $480 million in realized synergies.

Let's move forward now to slide eight, where I'll review our solid cash generation and capital return for the year. We generated $1.3 billion of operating cash during 2015, which enabled us to invest in growth, fund acquisitions, and return $1 billion to our shareholders through dividends and buybacks. Importantly, the cash generative nature of our diverse global business gives us the confidence that we can invest in our business and de-lever to maintain our strong credit rating, while still delivering on our objective to grow our dividend as we grow. Along those lines, this morning we announced a 13% increase to our quarterly dividend, following the 15% increase we implemented in last year's second quarter. This increase ultimately means that we will pay out 20% more to shareholders in 2016 than we did in 2015 in the form of dividends.

I'll conclude my remarks on slide nine, with a review of our capital structure and return on invested capital. At December 31, we had $627 million in unrestricted cash. Including the debt related to the acquisition of Interactive Data Corp, our total debt was $7.3 billion at the end of 2015, and our adjusted debt-to-EBITDA was 2.8 times. As noted above, we're confident that we can quickly reduce our leverage.

On the right side of the slide, you see our return on invested capital, which was nearly 8.5% in 2015 and remains above our key competitors and above our cost of capital. Our ROIC has steadily improved since closing the NYSE acquisition in 2013, and was on track to approach 10% as we move through 2016. As you would expect, though, ROIC will dip as we incorporate our investments in Interactive Data and Trayport. Importantly, through, we expect to continue to generate ROIC above our cost of capital, and to reestablish the upward trend into 2017 and beyond.

Our fourth quarter and 2015 results are a testament to the focus and execution across our business. We delivered record revenue, strong operating margin expansion and, once again, double-digit earnings growth, while continuing to strategically diversify our business to serve our customers' growing demands for information and risk management. And, importantly, we are off to a strong start in our transaction-based businesses in January, and expect our data and listings businesses to generate solid growth once again in 2016.

This solid revenue base, coupled with digital expense management, should once again enable us to deliver double-digit earnings growth in 2016.

I'll be happy to take your questions during Q&A. But for now, I'll turn the call over to Jeff.

Jeffrey Craig Sprecher

Founder, Chairman & Chief Executive Officer

Thank you, Scott, and good morning, everyone. We're pleased to report that 2015 was the best year in our company's history. It was our 10th anniversary as a public company listed on the New York Stock Exchange, and it was our 10th consecutive year of delivering record revenues and record earnings. I'll take a few minutes to update you on our growth drivers before we move into our question-and-answer session.

Starting on slide 10, which illustrates our unparalleled track record of growth over the last decade. Starting as an over-the-counter energy trading platform, then evolving to futures exchanges and clearing houses, we've now expanded into being a leader in data, connectivity, and listings.

We've evolved our business model to stay close to our customers' changing needs. And, in that process, we've moved from a 90% transaction-based revenue model to a balanced mix of transaction and subscription-based revenues across a diverse range of markets and services. Because our team and its culture is central to our strong results, I want to take a moment to highlight the promotions that we announced last week.

Ben Jackson, who previously led ICE Futures U.S. for us, is now our Chief Commercial Officer, where he is leading the integration of our acquisitions to ensure that we meet our targets of ever-increasing results. Ben is deeply steeped in the ICE culture, and will help export that important operating philosophy to our new colleagues.

Lynn Martin, our Global Head of Data, has expanded her scope to include responsibility for uniting Interactive Data Corporation with the ICE and NYSE data operations. Lynn joined us through the NYSE acquisition, where she led Life U.S. She is already working closely with the team at Interactive Data to ensure that we benefit from our combined strengths.

And Trabue Bland, who was ICE's Vice President of Regulation, is now the President of ICE Futures U.S. Trabue has a strong legal and compliance background, and has experience in working with our customers to address regulatory and market issues. These promotions set us up for the next phase of growth by leveraging the deep expertise that we have across our global team.

Turning to slide 11, you'll find a summary of our diverse growth divers across a broad range of markets. Many are secular trends and others are our organic growth initiatives, but all are the result of our customers' changing needs. I will walk through these in the next few slides, starting with the solid performance of our financial markets in 2015.

In our European interest rate markets, we saw significant build in open interest during the year. Rising open interest was coupled with a 30% increase in daily volume in the fourth quarter and that has continued into 2016 as daily volumes in our rates markets grew 27%. The increased activities in interest rate trading is being driven by customers returning to the market in Europe as central banks are becoming more vocal and action-oriented.

While the U.S., UK and European central banks may be on different paths, the changing expectations create dynamic rates and currency environment that drive trading and clearing activity.

Also in our financial markets, credit default swap clearing contributed over $100 million of revenue in 2015. This business continues to open new opportunities for us across the swaps clearing landscape, as further mandates across credit and interest rate swaps come into effect later this year.

Slide 12 is a snapshot of the strength of our energy markets. The importance of risk management at all energy price levels is evident, as you can see, well into the second year of oil price declines. The depth and breadth of our markets, along with uncertainty around oil prices and geopolitical events, drove record oil revenues, which increased 14% in 2105. And this resulted in the ICE Brent contract achieving its 19th consecutive annual volume record. The strong performance continued into January with daily volume in our oil markets up over 20% for the month, including another record month for ICE Brent Crude volumes.

We maintain a close dialog with our customers in the energy markets amid shifting dynamics of supply and demand and the challenges of declining prices. Expectation for the level of oil prices, strength of the dollar, Central Bank actions and global economic trends continue to drive uncertainty, and the increasing volumes in our commodities markets reflect these conditions. We also continue to grow by introducing new products in new markets, such as ICE Futures Singapore and ICE Clear Singapore, which were successfully launched in mid-November.

Now, turning to our global data business on slide 13, you can see the breadth of services that we now provide. Similar to the development of our diverse exchange and clearing operations, the development of our data services business offers a meaningful opportunity to leverage our global network. Our data services provide transparency, information, analysis and connectivity, all of which is consumed by market participants to transact across markets and instruments. Our customers rely on data, trading and risk management platforms, which are often interdependent across their workflow. And when these services are well coordinated, they create a strong value proposition.

While Interactive Data, SuperDerivatives, ICE and NYSE data are each strong businesses in their own right, we believe they'll be much more valuable to our customers and to our shareholders on a combined basis. Our customers' needs are not limited to exchange-traded data. The broader market for fixed income is vast and Interactive Data Corporation is centered on the changes taking place in this over-the-counter market.

You'll recall that the drivers of our acquisition are based on newer secular trends. These include the standardization of products for electronic trading and clearing and the need to trade with algorithms and quantitatively-driven programs. The increased use of technology is creating demand for data inputs, including the connectivity to consume this information. And the increased requirements for independent valuation required by financial reform raise the demand for autonomous data.

Finally, the trend towards growing indexation and passive investing, as seen in our strong ETF market performance, supports the access to data that can be licensed and packaged. We believe the data and data connectivity are deeply linked to the global market that they serve. And in order to lead in customer service and innovation, we are making investments in these areas.

Towards that end, on slide 14, I want to provide an update on our early progress with Interactive Data. In January, we began integrating the corporate services functions so that we can move forward serving our customers as one team. And as a result, we become even more confident about our combination. A great example of our potential together is last week's announcement of the launch of the ICE U.S. Treasury Index family with BlackRock agreeing to transaction four of its flagship fixed-income iShares ETFs to reference these indices. The new ICE fixed-income indices relay on pricing inputs from Interactive Data.

Also yesterday, we announced that AllianceBernstein chose our Best Execution service to evaluate its fixed-income trade execution quality, a service that utilizes the new Interactive Data real-time pricing algorithms. We see further strategic opportunities with both active and passive fund managers by leveraging the strong relationships that we've gained with them at the New York Stock Exchange. And we look forward to continuing to update our investors and our team as this integration progresses.

I'll move now to slide 15. 2015 was another exciting year for NYSE listings, culminating in record quarterly revenue. We were pleased to welcome great companies like First Data, Square and Ferrari during the fourth quarter. NYSE again led in global proceeds raised for the fifth consecutive year. Later this month, we expect to begin rolling up the new NYSE Pillar Trading Platform for our NYSE Arca markets. This is just one example of our commitment to incorporating leading technology into our unique market offering.

I'll also note the strong performance of NYSE Arca, where exchange-traded product volume rose 25% in 2015. As the leader in ETF listings, we've undertaken a study to support the long-term growth of the market for our issuers by identifying improvements to the trading ecosystem. Last week, we released this study conducted with McKinsey, outlying a number of proposed market enhancements, many of which are already underway.

Our listed customers continue to tell us that they prioritize proper price discovery in their shares over speed as is offered by our Designated Market Maker model. Whether through industry coordination or by our own actions, New York Stock Exchange will continue to lead positive change for listed companies and their investors.

Turning to slide 16, you can see that we're a growth company. In 2015, we grew our top line and our bottom line, and we're growing our dividend as we grow our earnings. ICE is driven by change, which brings opportunities to better serve our customers, and I'd like to pause and thank those customers for their business in 2015. And I look forward to building on our track record with our newly-expanded team in this new year.

I'll now turn the call back to today's operator, Rocco, and he'll be happy to moderate your questions.

QUESTION AND ANSWER SECTION

Operator: Thank you very much, sir. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Mike Carrier of Bank of America Merrill Lynch. Please go ahead.

Michael Roger Carrier
Bank of America Merrill Lynch

Q

Thanks, guys. Maybe first question for Jeff. Since the IDC acquisition and the announcement and based on some of your commentary, you look on the BlackRock win, AllianceBernstein. Just wanted to get your sense, I know it's still early, but when you think about like the growth opportunity in that part of the business, given some of the early traction that you're seeing with the customer base and it's a pretty broad customer base. Just wanted to get your outlook on what that revenue growth potential is. And I think that the IDC growth rate was around 3% in terms what they were growing and so maybe the opportunity from that base?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

Sure. Good morning. IDC tends to typically sign longer-term agreements that have some kind of escalator in them and has a very, very high renewal rate, well above 90% by any measure of renewal. And so, that part of the revenue is really almost an annuity-type business. What we're working on and have the team working on now is really expanding the scope of services and expanding the footprint in customer base. And we feel pretty confident that we're going to significantly increase the revenue growth and earnings potential of that company by new products, new services, new geographies and what have you. And the reason I wanted to highlight in my prepared remarks that there are two new services that we just put out and we've literally put Lynn Martin in there, little more than 30 days ago, that demonstrate the kind of thing that we think we can do.

We've very, very strong synergies with the New York Stock Exchange, the deep relationships that we've gotten over the last couple of years around the NYSE. We've taken our ETF management business and we're combining it with the Interactive Data business. These are businesses that produce real-time pricing in equities and now in fixed income for end users, for the management of exchange-traded products and alike. And in addition, we mentioned that for non-exchange-traded products, we now have the real-time valuation services that are new and robust. And so, we feel relatively confident with the thesis on which we made the acquisition. And I mentioned in the prepared remarks, we're actually more confident now that we started to put our teams together and unlock our customer relationships.

Michael Roger Carrier
Bank of America Merrill Lynch

Q

Okay. Thanks. And then, Scott, just a quick one on the expense guidance. Just the two items that you mentioned, like the $45 million on comp and then the $30 million on product and tech investments. Just maybe where are those areas focused? And then, when we think about the backdrop, right now the revenue outlook looks pretty good. If things do start to slow, where are the – maybe the leverage, the areas of flexibility versus the long-term investments?

Scott A. Hill
Chief Financial Officer

A

Yeah. Thanks for the question. So, look, the $45 million is kind of what I'll refer to as business-as-usual investment in our people, investment in the places where we work, et cetera. It's a little bit more than 2% of our overall expense base, which – that's to be expected plus or minus 1 point in any given year. These are investments in people that if you look back over the last three years, we spent about $90 million delivering almost $300 million in incremental revenue, which is about 70% – just under 70% incremental margin. So, we think those are good investments. We think they've proven to be good investments and they're good investments going forward.

The $30 million is really more targeted. It's targeted at a lot of the things that Jeff talked about in his script, not the least of which was the recent announcement with Interactive Data Corp. on the index deal that we did with BlackRock. There are also investments in there to further enhance our cyber-security capabilities. We have always been a technology company. We have always been very focused on information security and the stability of our systems. We design our own systems. We manage our own data centers. And so, that's an area where we think the additional investment pays off in the long term, by continuing to provide systems that are up for our customers to do the trading and the risk management that they need to do.

So, that's how I'd generally characterize it. And I think you're exactly right. Those investments are being made against the backdrop of a very diverse set of commodity and future and option products, all of which have strong open interest bases and an expectation that our data and listings businesses will continue to grow.

Michael Roger Carrier
Bank of America Merrill Lynch
Q

Okay. Thanks a lot.

Operator: Our next question comes from Brian Bedell of Deutsche Bank. Please go ahead.

Brian B. Bedell
Deutsche Bank Securities, Inc.
Q

Hi. Good morning, folks.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer
A

Good morning.

Scott A. Hill
Chief Financial Officer
A

Good morning.

Brian B. Bedell
Deutsche Bank Securities, Inc.
Q

Good morning. Jeff, maybe just to elaborate a little bit more on IDC. I know this is definitely a hot topic. But if you can talk about, to what extent you think you can package your data offerings using IDC altogether and cross sell that to the large customer base, whether that's part of the revenue opportunity? And then also, if there's any interest in eventually creating some type of fixed-income trading infrastructure – fixed-income trading platform, I should say.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

Sure. Well, we've already seen synergies in combining Interactive Data with some of our other businesses, beyond the indices and execution quality product offerings that I mentioned. Our SuperDerivatives valuation business, which is really designed to value very difficult and complicated contracts, is quickly finding synergies with Interactive Data in the customer base, where we can package really valuation services together. I think another part of data is how you deliver it. And one of the – the one real piece of infrastructure that we kept when we unwound the NYSE technology business was the Safety network, which is just what its acronym implies, a very safe network for which, as Scott mentioned, we're increasingly putting more cyber security and protections around, and the ability to deliver through that network into our data centers. And so, we believe that, in addition to the product, the delivery mechanism will be a value to our customers as well. So, all of that, I don't know – and for the 30 or so days that we've really been focused on, it feels pretty good, and we've seen some early wins in that regard.

I think – I've made comments before in public forums that the trend in our industry is for more execution competition. Some of that is happening because regulators are vulcanizing markets by wanting more local regulation, particularly local regulation of the banking sector. And for many years, our industry went electronic and took for granted the fact that we could trade globally. Well, now there are speed bumps around the world, as there are reporting requirements and other kinds of things that are fracturing markets. Beyond that, there is actually a trend in Europe that Europe is trying to, specifically, potentially fracture markets with MiFID II. And as those markets fracture, the need for putting the information back together on behalf of market participants, and having it delivered in a safe manner that's reliable and timely and what have you, is really where the puck is going to go, and that's where we're skating. And we've amazingly seen some very, very early signs of success just in a few short number of days.

Brian B. Bedell
Deutsche Bank Securities, Inc.

Q

That's great color. And then maybe just on NYSE Pillar, just the timing of the rollout in first quarter and then whether that – there's any change in pricing strategy as a result of that? And then also maybe, Jeff, do you want to comment on, to what extent you think more volume will move on exchange from dark pools, in light of what's been going on with some of the settlements?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

Yeah. So, the Pillar platform is up and is being used in coordinated industry tests to get people ready, if you will. We expect that it will begin rolling out in the next few weeks. And as I mentioned in my prepared remarks, we're going to start with the Arca platform. The early results of that are, that is a very, very predictable, reliable and fast platform that is simple and easy to understand.

Our experience in the derivatives markets have suggested that that is a winning formula for people that honestly, just have predictability of how a market's going to operate, and then can make their own investments and build their own systems and tools around that predictable nature. We're not going to change any pricing. I mean, that market is a highly competitive market, and prices continue to be adjusted by competitors and peers and others, and we'll respond to that. But we feel pretty good at rolling out Pillar just – we think it's going to be a dramatic improvement for the same value proposition.

We have seen business in 2015, in our mind, leave the dark pool market and come back to listed trading. And NYSE has gotten above its fair share of that market movement. And if you look at the market share trends, they're very, very positive for NYSE, and that's with our old legacy platform. So, we feel pretty good moving into 2016. It will take a while to put everything on Pillar. We're going to be relatively slow and deliberate; as we found out this summer, when the New York Stock Exchange had an outage, it's a major market disruption for the markets. And so, we have a heightened sense of caution, if you will, that we recognize the high place that we hold in ecosystem. And so, we're going to be deliberate, but the system looks good and is ready to go.

Brian B. Bedell
Deutsche Bank Securities, Inc.

Q

Great. Great. Thanks very much.

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

Alexander Blostein
Goldman Sachs & Co.

Q

Thanks. Good morning, guys.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

Good morning.

Alexander Blostein
Goldman Sachs & Co.

Q

Jeff, you touched on a couple of new initiatives with both iShares and AllianceBernstein, I wanted to pick up on that discussion a little bit. And I guess, two-part question, it sounds like these opportunities came about pretty quickly into the integration process. So, when you look out, are there a lot more of similar opportunities like that, particularly around the analytics piece? The index one, I think, is a little bit more self-explanatory, but on the execution analytics part of it. So, that's part A. And then part B, can you talk a little bit about how the pricing structure works, length of the contract? Is it kind of AUM-based or is it a fee-based, just help us better understand what other opportunities there could be? Thanks.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

Sure. In my mind, a lot of the opportunities set that we're seeing really comes from the fact that the buy side was able to rely on certain services that came from the global banking industry that were relatively casual and informal. But today, due to regulatory reform and internal audit practices, need to be more rigorous. So, for example, it might have been perfectly acceptable a few years ago to call a bank counterparty and ask what they think – what you think the mark should be on a particular instrument, and rely on that. Today, the regulators and the auditors want an independent validation, increasingly, as people are taking the obligation to get best execution seriously as the SEC is paying more attention to best desk requirements in the fixed-income space, asset managers and others are making investments to make sure that they are compliant and that they're able to represent to the end users that they're using best practices.

So, it's a relatively new market, as you probably know, the fixed-income space is evolving. Some of these things that I mentioned are really just tip of the iceberg. In other words, they haven't really resulted in formal rule makings or obligations, but people see them coming and are getting ahead of them. So, we think it's very early days and a big market. We have always had some execution capabilities in the fixed-income space, because of our Creditex acquisition. A lot of people that do credit to full swaps do underlying bond transactions. So, we have a very good dialog with a lot of end users, people that are in the markets every day. And we're exploiting all of those channels right now. And Lynn Martin and her team are working to organize that up, so that we can speak with one voice.

In terms of how we charge for them, it's pretty early days right now. We're having a lot of conversations. As you probably know, the passive index managers are very, very price competitive with one another, particularly for relatively standardized pools of trading. And so, they're looking for how they can best manage the services that go into supporting that. We're pretty familiar with that. We've been talking with them around NYSE Arca and their listing activities for years. And so, we want to put a compelling package together for them that is value additive for our shareholders. And so, we're having a lot of conversation about how to do that, how to partner with these guys to give them a better offering, but still return great returns for our shareholders.

So, early days yet, but we'll probably have more to say about it and Scott will have to figure out a way to talk to you about that so that you have some predictability in metrics as we go forward.

Alexander Blostein
Goldman Sachs & Co.
Q

Got it. And then staying on the pricing subject for a second, now that you guys have been with IDC for two months or so, any observations around pricing practices in the legacy kind of install book of business and any enhancements that you guys could envision doing to that part of the business?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer
A

Yeah. Their basic bread and butter service is a highly-valued service that the top-50 asset managers are all using and it's deeply embedded in the workflow. Our thought really is to bring our culture into it, which is, okay, how do we innovate off of that and provide more products and services and higher value to those end users, because what we've always seen in data is that if we provide more value, then people are happy to pay more for it. We have never really – and I think you know that about us, we don't go in and just jack up prices, per se. What our philosophy is, let's give people a better package and then they'd be happy to pay for it. And so, in that regard, we don't get a lot of pushback on our pricing. And yet, we've been able to really raise the profitability of these businesses.

The AllianceBernstein product that I mentioned in the prepared remarks is based off of the real-time bond pricing platform, which is new. It's something that Interactive Data had under construction at the time we acquired it. We're working to accelerate that and to get more and more instruments and more sophistication around that. And we think there are a number of different channels where that can be deployed. Right now, obviously, the AllianceBernstein deal is a deployment that results in financial gain for us. But that data is floating around the ecosystem right now in a relatively uncoordinated way and people are starting to rely on it. And we're going to figure out how to better channel that and monetize it for our shareholders.

Alexander Blostein
Goldman Sachs & Co.
Q

Understood. Thanks so much.

Operator: Our next question comes from Rich Repetto of Sandler O'Neill. Please go ahead.

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

Yeah. Good morning, Jeff. Good morning, Scott.

Jeffrey Craig Sprecher A
Founder, Chairman & Chief Executive Officer

Good morning.

Scott A. Hill A
Chief Financial Officer

Good morning.

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

I guess, my question – and this occurred a little bit probably back in the middle of December, but Bloomberg was able to acquire Barclays Aggregate Index. And I know – I think everybody know that Bloomberg's capabilities with analytical and tools, and now getting that index. So, I guess, you face competition head-on. Do you see Bloomberg as a competitor in the future and was it a fair even process, because I think Bloomberg does – was it a fair process in trying to acquire the index from Barclays?

Jeffrey Craig Sprecher A
Founder, Chairman & Chief Executive Officer

Well, let me first say that Barclays is a client of Interactive Data and a lot of the data that is used in those indices emanates from Interactive Data. So, we don't necessarily view that as competitive. It's actually a customer for us that is longstanding. And while those indices are valuable, obviously they traded for a significant value, the data in many of these indices belongs to Interactive Data and the history, if you will, also belongs to Interactive Data. So, we believe customers who are benchmarking to indices, it's going to be important that they have some continuity in their marketing materials and to the way they talk to their investors and their boards. And so, at this moment in time, we have no reason to believe that those indices aren't going to continue to be anything other than a customer to us.

There is a lot of index activity in the fixed-income space. It's an unbelievably large space in terms of number of instruments and issuance and the global nature of the debt markets around the world. So, the various fund managers are providing lots of different instruments to allow investors to participate in those markets. And as a result, there are a lot of different benchmarks and indices and ways that the market is growing. And so, as you can see, we were able to convince one of the most-sophisticated providers of ETFs in the form of BlackRock to begin to move business on indices that we now provide.

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

Okay. Thank you. That's helpful. I guess – and my follow-up would be, I guess, on the broad topic of divestitures. And I know at IDC, there was the trading platforms that weren't necessarily – that may be core overall to the business, but weren't – to the pricing and reference data segment, they weren't. But you signal bond desk and I think there was something about platforms and custom websites. So, I know you're quick to move or at least you were with the NYSE in divesting things that weren't core and you didn't see as value to yourself. So, I guess, the question is, what's the likelihood of seeing divestitures in 2016? And then, the ancillary would be, we're also coming up on the two year, I think, evaluation period on a bigger topic, but the NYSE.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

Yeah. So, Ben Jackson, who is now reporting directly to me and really we've passed with the job of looking at our total portfolio, looking at our footprint and helping us to figure out how to best organize that and that work is just starting. So, we don't have anything to say right now. I will say that there are a lot of interesting parts and pieces in the businesses that you just described that we want to take a hard look at to see where they might fit with other things we do before we make any kind of decisions on their long-term deployment, and that's what Ben is doing with us.

I think what's been interesting about the NYSE is that it fits so nicely now with the Interactive Data. As we've mentioned, the systems that we need to run ETFs inside the NYSE are highly complementary with Interactive Data. The sale of data, the way we move – marshal a data around. Having the New York Stock Exchange data is a door opener for our salesforce. Obviously, we can easily help people price equities. Having our commodity data in this era where there is tremendous conversation at all levels of boardrooms about commodities, all of that package together is really valuable.

So, the New York Stock Exchange, while it may have a different name other than it's not called ICE, the reality is that company is being integrated in a way that is really raising our earnings capabilities across the firm. And not the least of which is that New York Stock Exchange is a cash-generative business that sits in the United States so that we get U.S. cash, which is allowing us to quickly pay down debt and de-lever and will allow us to return capital to shareholders faster. We are a global company with an enviable position in that we're not struggling to figure out how to move money around the world in order to return capital to shareholders. And so, it's paid some very, very strong and interesting dividends that I think is really working for the firm right now. And not to leave you with...

Richard H. Repetto
Sandler O'Neill & Partners LP

Q

Okay.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

By the way, it's convenient for people to write about the New York Stock Exchange – and not you Rich, but for people to write about New York Stock Exchange and say it once had 85% market share and now it only has 25% market share, woe is me. The reality is that last year was the highest earnings of the New York Stock Exchange in its over 225-year history. And this month, I suspect that this is probably one of the highest-earnings months in its history. It's a company that is doing incredibly well from a financial standpoint. And I think as we continue to shed legacy platforms and simplify it and make it better and easier to understand and more approachable to investors and listed companies that it's going to continue to do well, notwithstanding the fact that is in a highly-competitive environment with very strong competitors. But it's doing very well and it is not a business that we would want to see leave our portfolio.

Richard H. Repetto
Sandler O'Neill & Partners LP

Q

Understood. Thank you for the detail, Jeff.

Operator: Our next question comes from Ken Hill of Barclays. Please go ahead.

Kenneth W. Hill
Barclays Capital, Inc.
Q

Hey. Good morning, guys.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer
A

Good morning.

Kenneth W. Hill
Barclays Capital, Inc.
Q

So, I just want to get back on IDC again. So, from an asset manager perspective, you guys are in a pretty unique position. You're providing index for listing, the trading, even some of the trading data. So, that I'm assuming provides you a lot of leverage in multiple areas. So, it sounds like the licensing side is probably the more competitive pressure point. I guess, when you're having the conversations with firms like asset managers, are they actually structured from a sales perspective where they talk holistically about the business, thinking across those things? Do packages really resonate with them where you could maybe use listings as a loss leader to help on the index side or on the trading side over time? Or is that going to be something that probably takes time for them to get up to speed on?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer
A

No, one of the things that we come to see, as I mentioned earlier, is the major sponsors of these new instruments are doing incredibly well. These products are growing in popularity with investors like you can't believe. But it's a very competitive space. And there are – the way, for those managers, to do well with growing AUM, is to make sure that they manage their costs. And so, that sentiment is at the highest level of those firms. And so, I can go in, or other senior people at ICE, are meeting with people at the highest levels of those asset managers and having holistic conversations about how we could work better together to overall help them meet their regulatory obligations, do a better job for their investing public, and manage their costs in a way that's predictable, that keeps them competitive with one another.

So, my point is, I think that is such a strong value proposition for us, and such an interesting thing for those managers, that the conversations are happening at levels above your typical salesperson. It's easy, once that door is open, for us to figure out creative ways of packaging things, and we've just started this. But so far have been very, very well received and actually had some inbound calls from people saying, can you come in here and let's sit down and talk about what we – how we might work better together. And we're lucky that the New York Stock Exchange and the people around Arca have done a very good job of managing the listings of those companies. So, they've built a track record of knowledge that we can lever off of.

Kenneth W. Hill
Barclays Capital, Inc.
Q

Okay. I think we've heard a lot about the IDC on the call today. I don't think I've heard the word Trayport yet. Is there anything you guys are looking forward to there, or things we can look forward to from a revenue perspective or a growth perspective, that's interesting for 2016 there?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer
A

I would just say that, you could see that our company is evolving, that we're providing services to others that go beyond just trading and clearing. And so, we're following the workflow of the industry and providing infrastructure. So, it's a natural evaluation for us. Many of our competitors have provided software in the form of their trading platforms or access to their networks. We had historically not been in that business. But, as you see, we're moving that direction, because we have an interesting footprint. And so, in that regard, we want to support brokers, we want to support asset managers, investors, listed companies and others, with services that go way beyond just trading and clearing.

Kenneth W. Hill
Barclays Capital, Inc.
Q

Okay. Great. Thanks for taking the questions.

Operator: Our next question comes from Kyle Voigt of KBW. Please go ahead.

Kyle Voigt
Keefe, Bruyette & Woods, Inc.
Q

Hi. Good morning.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer
A

Good morning.

Kyle Voigt
Keefe, Bruyette & Woods, Inc.
Q

So, I just wanted to clarify, real quick, on the cost synergies. Scott, I think you said $75 million this year is one-third of what you expect to achieve over the next three years. So, am I right to infer there's another $25 million of NYSE-related cost synergies left to realize in 2017? And then on Trayport, I know it's small, but are there expense synergies from Trayport that's embedded into that guidance?

Scott A. Hill
Chief Financial Officer
A

Yeah. It's a good question, and what I did was deliberate. We now own the NYSE. We own Interactive Data Corp. We own Trayport. We own True Office. We own SuperDerivatives. We've made a number of acquisitions in the last three years. And so, what we effectively said is that, exiting 2015, we had about $70 million to go with NYSE, $150 million as we integrate ICE and Interactive Data together, so $220 million in total. And that's how I think you ought to think about it. We've got $220 million that we need to get out, largely over the course of 2016, 2017 and 2018, and we're going to get a third of that done this year. And that's how I think you ought to think about the expenses moving forward, because the reality is, we look for an expense save wherever it is. Jeff talked about the Interactive Data assets that we're looking at. There is overlap with similar assets in SuperDerivatives inside ICE, inside the NYSE. And as an investor, I don't think you care where the dollar is saved, you just care that the dollar gets saved. So that's how we're going to be thinking about it and talking about it as we move forward. $220 million to go as we entered 2016, a third of it done this year.

Kyle Voigt
Keefe, Bruyette & Woods, Inc.
Q

All right. Perfect. Thank you. And then just a follow-up question, as it turn into regulation, just around MiFID II, just really around the possibility of some of these large commodity trading firms, including many of your customers, potentially getting caught under the scope of MiFID II and being forced to hold more capital. So, it just seems like we're in this weird period of limbo, where we're waiting to see how long MiFID II will [ph] be delayed (52:00).

I just want to get your thoughts on the delay. What do you think the delay gives your customers more time to speak with regulators? And if you generally feel more confident that the delay could lead to a bit more practical and workable regulation?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

Well, the short answer is – to exactly what you said is yes. One of the things that we've seen now is that, when MiFID II was passed, I got the sense that politicians went and asked their constituents, would you like to have everything unbundled, would you like to be able to choose where you trade and where you clear and where you buy research and have complete choice in what you do, and everybody said yes. Would you like to make sure that the banks are not cornering markets and taking speculative positions that drive prices the wrong way? People said yes. And the question that wasn't asked is, how is that actually going to impact the market and what is it going to cost you? And now that the regulation is out there, people are looking at it and saying, oh my gosh, it's going to fragment markets, it's going to drive up my costs, it's going to potentially make it more difficult for me to hedge, it may move markets to other jurisdictions.

And so, there is a much more active dialog going on around MiFID II, and not just the areas that I described, but the totality of the bill. And I would say to you that Lord Hill, who is the Finance Minister there, or the Infrastructure Minister that's overseeing financial services, he's got a open ear and wants to – my impression is that he wants to make these markets work. And it is much more impactful in the dialog when the ultimate end users go in and talk about their concerns than it is when exchanges and brokers and infrastructure providers go in, because we look to the politicians like we're just trying to protect our interests, when in reality they're starting to hear these kinds of issues from the end users.

And so, obviously, it has slowed down and part of the reason that it is slowed down is that there is an active dialog going on around it as to how to improve the language and make it work. And so, in that regard, I'm relatively hopeful and respectful that the bill will get better with time. It's hard to know when it will actually be implemented. Some of these things require investment and not just investment by the industry, but also investment by governments, in order to monitor and maintain some of these things. So, until Europe has landed on a specific set of language that people can understand and then figure out a timetable on how it can be implemented, it's hard to know exactly what the timing is. But the good news is that there is an active dialog and it's pretty broad and involving a lots of different constituencies.

Kyle Voigt
Keefe, Bruyette & Woods, Inc.

Q

Okay. Great. Thank you.

Operator: Our next question comes from Andrew Bond of RBC Capital Markets. Please go ahead.

Andrew Bond
RBC Capital Markets LLC

Q

Thank you. Good morning. Jeff, I'm interest to get your take on the IEX application and just ICE's objection to IEX as a registered stock exchange. The application has clearly struck a chord, given the overall [ph] no (55:33) response throughout the comment period. I guess, however, out of all the comment letters, there's really only a handful that have come out against IEX, whether it was from competitors and large market-making firms that's put it out. So, I guess, the question is, what are the majority of people missing from a fairness perspective? Is it just a rule base defined by Reg NMS or do you think granting IEX registered exchange status will damage market structure? And I guess additionally, could you please give your thoughts on IEX's assertion that NYSE already operate with the speed bump of its own, so to speak? Thanks.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

Sure. Let me start with the second question first, which is we do not, and that's absolutely false and it's wrong. NYSE does not have any kind of speed bump or any kind of artificial delays. And I just want to correct one thing in your question, NYSE and ICE are not against IEX becoming a regulated exchange. And in fact, the National Stock Exchange recently had an application became a stock exchange and we were not against that. What our concern is, is that there is a law on the books that requires that NYSE and all other regulated exchanges deliver our results as soon as technically practicable and we've been held to that standard for years. And what IEX is asking is for an exemption that would solely be for IEX, not for the industry. Solely IEX would be the only one that would be exempted from the law and IEX is attempting to patent this system that it is seeking to exempt.

So, it is looking for the ability to have a regulated monopoly status that the other exchanges do not have. And so, I have advocated and worked behind the scenes with lots of people that say we should take a look at market structure, we should look at slowing down. The ideas that they're promulgating are not bad ideas at all, but the method that they're going about it we're objecting to. This is solely for their benefit and not for the benefit of the industry. And frankly, if that were to go forward, IEX would actually hurt the other people in the industry. Normally, when there is innovation, the innovation helps people, but it doesn't actually hurt the people that are left behind. And so, that is our objection, that's what we want the SEC to take a hard look at.

If the industry can come together and work on a change to Reg NMS, we would be very supportive. If the SEC wants our support or needs our help in changing Reg NMS to allow things to slow down, to change the way that data moves around, to change the obligation of exchanges, we're all-in for that. But not a one-off deal that benefits somebody who's trying to patent and receive a regulated monopoly. And I don't think it's fair. I don't even think it's – it is un-American and it's not fair and it's not the way that our system should work.

Andrew Bond
RBC Capital Markets LLC

Q

Okay. Thank you for clarifying.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

Yeah.

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

Kenneth B. Worthington
JPMorgan Securities LLC

Q

Hi. Good morning. Thanks for squeezing me in here. BATS just made a big push into ETFs business, which ICE and New York Stock Exchange dominate, that's hired from ICE, BlackRock just move some listings products to BATS. So, how do you think about the encroachment here in what at least we consider to be a very good and important business for you?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer
A

Sure. Well, first of all, I should mention that it's a highly-competitive space and while you mentioned one competitor, there are others that are all coming at this, because it's a growing area of business and in a competitive space, people are looking to get their market share. One thing that we've heard from many of the ETF sponsors is they like, frankly, the competition; they feel that it's benefiting them. And secondly that they do want to have some diversity of providers, in case there is a technical problem or some other structural problem so that they have tested other systems and would be able to move business around quickly. So, some of it is really just – some of the movements that you see is really people doing a BCP planning, so that – because these franchises are becoming ever-more important. And so, you can – we understand and actually helped some people to do that, because we want to be able to have those businesses, those that can move our way.

I don't know what to say other than it is not particularly expensive to list an ETF. You're talking about things in the sense of $25,000 a year or less. So, while it is highly competitive, that is really not the metric that is going to allow an ETF provider of any size and scale to determine where to list. And what I'm investing in, what you can see us doing, is really improving the package of services that we can have to literally partner with these firms, to be part of their workflow and to make life easy for them, because we understand this business and even more so now in the fixed-income space. And we are an advocate for them and want to continue to be an advocate with public policy and with their marketing and sales efforts that goes way beyond what a $25,000 investment would have for an ETF. So, we feel good our positioning, but it's certainly competitive.

Kenneth B. Worthington
JPMorgan Securities LLC
Q

Okay. Great. Thank you. And then just on the health of the crude trading market. So, obviously, volumes have been on fire, but open interest peaked in November. Producers are, I think, a pretty meaningful customer base for you and, to at least some extent, they're under some stress or pressure with the decline in oil prices. And we understand that hedging has actually fallen off a bit, because the curve is so steep. So, how do you think about the health of that business right now and maybe even the outlook? Thanks.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer
A

Sure. Well, what's interesting is that while we read and hear and talk to customers about them being under pricing pressure, the reality is we've seen a growing number of users and interest in these markets. So, it hasn't – that phenomena has not led to a decrease in the number of customers, it's actually led to more interest and an increase in the number of customers. I think more people are paying attention to those prices and trying to figure out when to lock-in low prices or whether or not there are going to be high prices. And so, there is a lot of trading activity.

Open interest, as you know, from covering this for a long time, I'm sure that open interest in certain commodities, particularly in oil, will go up and down with the steepness of the curve, if and when it [ph] evaporates (63:15) or goes into contango, there are different carry economics that go on that affect open interest, but actually accelerate trading, which is what we care about. So, we care about our open interest and we monitor it and we watch it and we use it as a predictor. But you have to look at it in context with, is the curve getting flatter or steeper. And so, we are very, very comfortable right now that that is still a growing franchise. And as I mentioned, we had record volumes in January and there is tremendous interest in the energy commodity space globally right now. So, we'd expect that to continue.

Kenneth B. Worthington
JPMorgan Securities LLC

Q

Great. Thanks.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

We would expect that growth to continue.

Kenneth B. Worthington
JPMorgan Securities LLC

Q

Great. Thank you very much. Super helpful.

Operator: This concludes our question-and-answer session. I'd like to turn the conference back over to Mr. Sprecher for any final remarks.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

Well, thank you, Rocco. And thank you all for joining us today and we'll look forward to continuing to update you on our progress as we go forward. Have a good day.

Operator: Thank you, sir. Today's conference has now concluded and we thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.