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# Intercontinental Exchange, Inc. (ICE)

Q3 2015 Earnings Call

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**Jeffrey Craig Sprecher**

*Chairman & Chief Executive Officer*

**Scott A. Hill**

*Chief Financial Officer*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good morning and welcome to the ICE Third Quarter 2015 Earnings Conference and Interactive Data Transaction Review Event. 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. Please go ahead.

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### Kelly Loeffler

*Senior Vice President, Corporate Communications, Marketing & Investor Relations*

Good morning. ICE's third quarter 2015 earnings release and presentation can be found in the Investors section of [theice.com](http://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 2014 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.

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### Scott A. Hill

*Chief Financial Officer*

Thank you, Kelly. Good morning everyone and thank you for joining us. I'll begin on slide four with some highlights of our strong performance through the first nine months of 2015.

Our overall revenues grew 7% versus the prior year. Transaction revenues were up, thanks to strength in our commodities markets as well as in our U.S. cash equities market. Our data services revenue grew 22% and listings revenues grew 11%.

In addition to solid top line growth, adjusted operating expenses declined 5% from the prior year, which enabled adjusted operating margins to expand 5 points to 59%. All of this combined to generate 26% year-over-year growth in our adjusted earnings per share. And we generated \$890 million in operating cash flow in the first nine

months of this year, enabling us to return nearly \$850 million to shareholders while continuing to invest in our business.

Please turn to slide five, where I will discuss our third quarter performance. Our adjusted earnings per share rose 24% from the prior third quarter to \$2.91. Net revenues grew 10% year-over-year to \$816 million. This was driven by record quarterly data services and listings revenue and solid growth across commodities and U.S. cash equities.

While revenues grew, adjusted operating expenses declined 2% year-to-year to \$337 million and margins expanded 5 points to 59%. Operating expenses were slightly above our guidance, due to a true-up in our bonus accrual for the full year, reflecting our expectation that we will exceed our challenging 2015 financial objectives with notable strength in our commodities and, in particular, our data services business.

Our pay-for-performance culture rewards our team when our results exceed the appropriately high expectations of ICE investors. Importantly though, well over 85% of that overachievement drops straight to our bottom line. Our strong third quarter results cemented our path to record results for the full year.

Moving now to slide six, I will highlight our third quarter net revenues of \$816 billion, which were up 10% year-to-year. Transaction revenues accounted for 56% of our total revenues and increased 3% year-to-year. Our transaction revenue are diversified across nine asset classes, which benefit from both secular and cyclical trends and include our energy revenues that grew 5% during the quarter.

The remaining 44% of total net revenues were subscription or what we previously referred to as non-transaction revenues. Those revenues increased 20% over the prior third quarter. Our subscription revenues encompass our data services offerings including proprietary data, connectivity, and valuation and benchmark products from SuperDerivatives and ICE Benchmark Administration. These revenues also include our listings business, which continues to lead in helping our customers raise the capital they need to grow their businesses.

I will provide some additional detail on revenues on slide seven. Within transaction revenues, commodities revenue grew 5% year-to-year due to strength across our energy and ag markets supported by ongoing price volatility. In addition, U.S. cash equities revenues were up double digits year-to-year.

Though financial revenues decline, we continue to expand our product offering and are well positioned when the European economy begins to improve. As you can also see, we generated record data services revenue of \$209 million in the third quarter, which was up 24% year-to-year, as we continue to attract new users and offer new services such as those provided by SuperDerivatives and ICE Benchmark Administration.

And finally, you'll note that listings revenues of \$101 million increased 10% year-to-year and remained at record level, which is a testament to the strength of the NYSE market model and our unrelenting focus on remaining the leading capital raising platform for companies around the world.

Next on slide eight, I'll discuss our third quarter adjusted operating expenses. Expenses during the quarter declined 2% to \$337 million. Adjusted operating margins expanded 5 points to 59%. The 4% increase in compensation and benefits is the result of the higher bonus accrual we made during the quarter to reflect the outstanding results we believe we will deliver for the full year 2015.

Professional services expenses, as well as SG&A and rent expenses declined double digit year-to-year as we continue to integrate the NYSE. And finally, strategic investments in our business caused technology and D&A expenses to increase modestly compared to last year's third quarter.

I'll conclude my third quarter remarks on slide nine with a review of our solid cash generation and capital returns. At September 30, we had \$708 million in unrestricted cash and short-term investments, and an adjusted debt-to-EBITDA of 1.6 times. During the first nine months of 2015, we generated \$890 million of operating cash, which enabled us to invest in growth and to return early \$850 million to our shareholders through dividends and buybacks.

And by the end of this year, even though we've now suspended our share repurchase program pending the close of the Interactive Data deal, including the share repurchases completed in October and the dividend that we will pay during the fourth quarter, we will return nearly \$1 billion to shareholders during 2015. We are on track for a record year in 2015 including solid revenue growth, operating margin expansion, double-digit earnings growth and significant capital returns to our shareholders.

I will now turn the call over to Jeff.

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## Jeffrey Craig Sprecher

*Chairman & Chief Executive Officer*

Thank you, Scott, and good morning. Today, I am pleased to report on one of the best quarters in our company's history and to share the strategic vision for the continued evolution of our company.

Before I discuss ICE's expanded data services opportunity, I want to first highlight our diverse range of growth opportunities. I am often asked how we plan to grow revenues over the long term. So I will begin with a few of these drivers on slide 10. These are just a few of the areas that give us confidence in our ongoing double-digit earnings growth. Many of the areas listed on this slide – energy, listings, data and U.S. equities – contributed to our 10% revenue growth and our 24% earnings growth during the third quarter.

I am pleased to note that on November 17, our initiative to serve the growing demand for trading, clearing and risk management in Asia will launch as ICE Futures Singapore and ICE Clear Singapore. Our initial products include mini Brent and gasoil futures, gold and mini RMB futures. And we expect to span the range of tools we offer based on the needs of our customers, as market participants demand more risk management services in the Asian region.

Moving on to slide 11, I will turn it to our unique growth opportunity in data services. Today, our data business includes a growing number of subscription services ranging from trading and settlement data, to data delivery, to analytics. Trading and settlement data comes directly from our exchanges and clearinghouses including real-time, view-only, historical and customized data.

Our data delivery services help our customers connect or receive our data using co-location or as well as our secure connectivity known as the Safety network, and the analytics tools that we have acquired and developed that make raw data more meaningful such as index price creation, benchmarks, valuation and forward pricing curves for the commodities and financial markets. This area includes products from SuperDerivatives and will include products from Interactive Data Corporation following the closing of our transaction in the coming months.

What we see is more customers using data to inform their trading decisions and increasingly their capital allocation decisions. So we are focused on harnessing our data into more usable, value-added information that our customers can easily consume to make more educated risk management decisions and comply with regulatory requirements.

Next on slide 12, I would like to offer some additional insight into our recently announced Interactive Data Corporation transaction. Interactive Data is a leading provider of financial market data, analytics and related distribution solutions. It serves virtually all of the world's major financial institutions and asset managers.

The majority of Interactive Data's revenue, approximately 70%, comes from providing evaluated pricing of hard-to-value, thinly traded fixed income securities. The other 30% is derived from widely distributed data and technology platforms.

What we see is the opportunity to leverage this valuable asset to innovate for our customers while creating tremendous value for shareholders. ICE is a consistent earnings per share growth company that has recognized industry trends early and placed ourselves at their intersection in order to innovate around change.

Recall that in 2007, we acquired the New York Board of Trade in order to gain access to clearing technology believing that we could make clearing a strategic business rather than a back-office function. We took this newly acquired clearing technology and launched one of the world's most important commodity clearinghouses in London. We then built on this technology to take \$65 trillion of credit derivatives off the books of the world's largest financial institutions.

As part of the NYSE Euronext transaction, we expanded this technology to include the interest rate and equity derivatives markets, and most recently we've adapted this platform to serve the Asian markets. This robust, sophisticated technology calculates the value of millions of clear trading positions around the world every day.

NYSE Euronext also brought us an equity value calculator that is relied upon to value our 95% market share of ETF listings. We acquired SuperDerivatives last year for its ability to value complex instruments and trading positions, particularly in the foreign exchange space. We built ICE Benchmark Administration and now calculate the LIBOR rates, the value of interest rate swaps known as the ICE Swap Rate, the London Gold Price and in October we'll calculate the SIM valuation parameters for the initial margining of bilateral swaps.

So all this brings us to Monday when ICE announced its agreement to acquire Interactive Data, the foremost valuation provider in the global fixed income market; energy, agriculture, credit, interest rate futures, interest rate swaps, LIBOR, equities, equity derivatives, exchange traded funds, foreign exchange, gold and now fixed income instruments. ICE is becoming one of the world's foremost providers of tools and information that's needed to value risk, whether that's found on exchange, off exchange or in the cash markets.

So what is this trend that we are targeting? It's the increasing need for more information to optimize capital efficiency when you manage risk. And as bank balance sheets have become constrained and as regulation requires collateral for all risk positions, we believe that there will be increasing demand for the data, information and solutions as to the cost of holding, hedging and managing risk. And we've demonstrated our willingness to invest to be a trusted source in this important area.

When we started working on ICE in the late 1990s, exchanges were largely regional businesses. In fact, they recognized this and actually had the location in their name, the New York Mercantile Exchange, the Chicago Board of Trade, the New York Stock Exchange, the London Metal Exchange, the Deutsche Börse, the Hong Kong Exchange. So you get my drift here.

The move to electronic trading into the Internet transformed many of these regional businesses into global businesses, improving their market access. And as they lost their borders, exchanges became more competitive with one another, listing each other's products and beginning to fragment market liquidity.

Additionally, some players started to lobby government to adopt rules to even further fragment liquidity in order to benefit broker intermediaries, high-frequency traders, as well as exchanges that are seeking regulatory solutions for their commercial challenges. So this resulted in Regulation NMS in the United States and MiFID and MiFID 2 in Europe.

Market fragmentation means that not all buyers will find their lowest cost sellers and vice versa. So this fosters informational asymmetries where certain market participants and intermediaries will benefit from arbitrage opportunities. And since many buyers and sellers can't or won't make the technology investment required to find the best price in a more complex market, they compensate brokers and intermediaries that have made the investments in the technology and the data to do so. So, as markets fragment, the value of data increases, and the matching of buyers and sellers on exchanges decreases on a relative basis with some execution venues actually paying users to match orders.

Why would they do that? Because as exchanges unbundle their execution services, they can address the widening bid-offer spreads that fragmentation brings by providing market access and market data. So what you see in our business is now a directional shift of the mix from transaction-based revenues towards recurring subscription-based revenues, as the market evolution transfers value to these needed services.

In other words, when regulators unbundled exchange trading and clearing, exchanges have typically gone even further and unbundled the matching technology from data, access, oversight and valuation services. And as such, these fragmented markets create increased opportunities to provide valuation services such as Interactive Data has found in the highly fragmented cash bond markets.

With a 98% revenue renewal rate, one of the highest revenue renewal rates I have ever seen in any business, the market obviously creates an authoritative source for consistent, reliable price discovery. And where regulatory and structural issues keep markets vulcanized or fragmented, these valuation services prosper.

Another trend that we are tapping into is the increasing sophistication of risk managers, who value more real-time information rather than simply end-of-day marks. They also demand better analytical tools to help them consume real-time information.

The growing trends towards investments in exchange traded funds and passive index investing is also increasing the demand for real-time evaluated pricing to support the innovation of these products. And we see markets like cash bonds and swaps moving from exclusive voice trading to hybrid voice and electronic trading, which is demanding the trusted evaluated pricing to encourage screen-based liquidities and confidence in those prices that are displayed.

Take all of these trends together and you can see a very positive environment for ICE's risk management tools to grow. So we're taking a very strategic approach to evaluating our company and evolving it in an ever-increasing provider of value-added services.

I'd like to thank our customers for their business in the last quarter and I'm going to turn the call back over to Scott, who'll close out the call with the last two slides. And after that, we'll take your questions at the conclusion of his remarks.

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**Scott A. Hill**

*Chief Financial Officer*

Thanks, Jeff. Please turn to slide 13, where you will see a transaction summary. As disclosed in our press release on Monday, we agreed to buy Interactive Data Corporation for \$5.2 billion. We will finance the \$3.65 billion cash component with debt and will provide ICE shares worth \$1.55 billion.

In addition to the significant strategic benefits of the acquisition, which Jeff just described, we expect to realize \$150 million in expense synergies. These synergies will come from the integration of corporate function and from business efficiencies associated with reductions in technology expenses, business rationalizations and the elimination of redundant operations in the combined companies.

The expected cost synergies reflect just over 25% of Interactive Data's total expenses, and we expect that within the first year after closing, we'll realize 25% of those synergies. And as we mentioned in our release on Monday, this transaction will be more than 5% accretive in 2016.

We've provided a detailed schedule in the Appendix of our presentation that takes you through the accretion math. Interactive Data is a business with strong and improving profitability, as well as robust cash flows, which will contribute meaningfully to our results. It is also a business that we believe will grow faster when combined with our ICE data businesses and which offers the opportunity for margin expansion that will generate strong profit and cash growth. Acquiring good businesses with unique competitive advantages that we can improve upon is an important part of the strategy that has enabled us to deliver consistently strong growth year after year.

Slide 14 shows that trend. The acquisition of Interactive Data Corp., combined with the diverse business we already operate, will enable us to continue this track record of growing EPS every full year since being a public company.

I will now hand the call to the operator, who will conduct a question-and-answer session.



## QUESTION AND ANSWER SECTION

**Operator:** [Operator Instructions] Our first question comes from Alex Kramm at UBS.

Alex Kramm  
*UBS Securities LLC*

Q

Hey, good morning, everyone.

Jeffrey Craig Sprecher  
*Chairman & Chief Executive Officer*

A

Good morning, Alex.

Alex Kramm  
*UBS Securities LLC*

Q

So obviously, jumping right into the IDC transaction, maybe just starting with the outlook that you guys have for IDC, I think a lot of people noted that the growth rate has been a little bit lower over there, I think, 3%, 4% or so, but having spent some time with the company recently, it sounds like [ph] there really was inward (20:52) focus recently for the last few years and now are really in a position to grow. So wondering what you see or what you model as the organic growth rate in that business over the next few years before kind of like ICE as their secret sauce to it?

Jeffrey Craig Sprecher  
*Chairman & Chief Executive Officer*

A

Sure. I think, Alex, we'll have more to say over time once we actually own the business, but I think most people on the call that know the fixed income space know that there's a lot of changes going on in that market right now. The markets are becoming more transparent. The market participants are demanding more transparency.

There is more movement onto some kind of transparent hybrid systems right now, and those systems increasingly and the market participants that use those systems are increasingly going to want real-time valuations done, so that people can have some confidence in the price levels that are displayed. And so, IDC has been moving on its own from providing end-of-day data to the ability to use technology to give more robust and more real-time interaction with our customers.

For many years, they've had a technology project underway to do this. They are coming to the fruition of that. We are a technology company, providing other kinds of valuation services. We think when we combine all of that, we're going to have a really good robust offering that will be highly valued by the marketplace and will continue to help serve the evolution of fixed income and other hard-to-value swaps and derivatives that are going to become more transparent.

Alex Kramm  
*UBS Securities LLC*

Q

All right, fair enough. And then maybe I will just go on the cost idea for a minute, I guess this is for Scott. Can you talk a little bit more about where those synergies are coming from? I think on the pricing side, their margins are actually above 60% already. So is it going to be more on the trading solutions side? Is it going to be more of moving your existing business onto their new technology? And then also do you think you're going to shed some of

these assets on the trading solutions side? I think some fit well but there might be some others that are not really that core to what you're trying to build here?

Scott A. Hill

Chief Financial Officer

A

You pretty much answered the question with your question. I think really, Alex, it's across the board. As Jeff said, we're not going to go into a ton of detail now. We'll do that as we get closer to the close on the acquisition. But as I mentioned in my prepared remarks, I think there're opportunities in a number of places. There's \$100 million of corporate spend at Interactive Data. They're clearly our overlaps from a corporate standpoint with what we've got at ICE.

You saw our ability to execute on that type of integration in the NYX deal and frankly every deal we've done before that. There are definitely overlaps if you look at their training solutions business. They've got a business 7icks, which is very similar to the Safety network business that we've got at NYSE. They've got a desktop business, which is similar to the desktop assets that we acquired with SuperDerivatives and frankly our WebICE platform.

So there are, I think, efficiencies we can get by combining those businesses. Definitely, I think there is opportunity around the technology spend as we combine the two companies. So I think the playbook looks a lot like the NYX deal did in terms of where the synergy opportunities exist. There's also – it's a pretty big real estate footprint. That's another area where we think there should be opportunity. I think we've done a pretty good job of consolidating locations over time. It's better for, kind of, our one-team view as a company. It's also a means of generating efficiencies. So look it's a very well-run company that where the profitability has continued to improve, but I definitely think there are multiple pockets of opportunity for synergies, which gives us the confidence that we'll be able to remove around 25% of the targets operating expenses.

Alex Kramm

UBS Securities LLC

Q

Great. Thank you very much.

**Operator:** Our next question is from Alex Blostein at Goldman Sachs.

Alexander V. Blostein

Goldman Sachs & Co.

Q

Great. Hey, good morning, everybody. Just following up, I guess, on the data discussion. I was hoping, you guys could focus a little bit on ICE's current data business, clearly still pretty good growth there. So maybe spend a minute on, Scott, the components of the growth that you've highlighted earlier in the call between new users, products, SuperDerivatives and Benchmark Administration. How much have they contributed maybe on a quarter-to-quarter, year-over-year basis, kind of, in an inorganic state just trying to get a sense of what does the growth in that business look like before we incorporate IDC? Thanks.

Scott A. Hill

Chief Financial Officer

A

Sure, I would be happy to talk a little bit about that. We really haven't gone into a breakdown of the data revenues per se. Obviously, as we integrate Interactive Data, one of the conversations we'll have is how to give you some more insight into that. But I think if you look at the year-over-year growth, a large portion of it in the third quarter, similar to what we've seen in the first and second quarters is we continue to see new users that want to

consume the data that we are selling across our exchanges, whether it's the New York Stock Exchange or our commodity exchanges. There is a significant and growing demand.

We saw a big boost early in the year, and frankly even from that higher customer count, we saw it increase again in the second quarter and again in the third quarter. I've mentioned each quarter, you guys have asked that I would expect the revenues in next quarter to be similar. I've been wrong each time and that's because we continue to see growth in the customer demand.

Clearly, the SuperDerivatives revenue through the first three quarters was a net add because we acquired the business. I would argue there as I have before that beyond the acquisition of the revenue that's contributing to the growth. We are still in the process of integrating that business. And I think the real growth opportunity at SuperDerivatives is as we look into 2016.

ICE Benchmark Administration had a very good quarter in the third quarter and continued really a trend where the first quarter was better than the fourth quarter, the second quarter was better than the first quarter and we had a very good quarter in the third quarter as well. So again, the largest part of the growth drivers continues to be the growth in users consuming our exchange data, our proprietary data, but there is no question that SuperDerivatives and then in particular ICE Benchmark are also contributing to revenue that not only is growing year-over-year but is growing quarter-after-quarter-after-quarter.

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Alexander V. Blostein

*Goldman Sachs & Co.*

Q

Thanks. And then, Jeff, slightly a different directional questions, I guess, but over the course of the quarter MiFID 2 came out – with some of the final rules came out because there's still some details to be ironed out but just curious to get your perspective on things like open access and position limits. How is that coming in relative to your expectations?

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Jeffrey Craig Sprecher

*Chairman & Chief Executive Officer*

A

It's a good question. So, for those that haven't followed it specifically, some more detailed rules were published by the staff as to how this is going to work, but then above that, the Commissioner Lord Hill, who is the Financial Services Commissioner in the EU has said, let's take a pause here and take a look at how the totality of all of this new regulation is going to work, and make sure that some of these issues on access, position limits, the segregation of research from execution and these kinds of things, let's take a look at how they are going to impact liquidity and the competitiveness of Europe.

So there is a back channel story going on right now with a review of the rules that were just sort of promulgated. Those rules still have to be voted on. And so the commissioners, theoretically, in the EU – or the voters in the EU will ultimately have to decide whether or not these rules are going to lead the fragmentation, whether they're going to lead the increased systemic risk and whether or not they're going to make Europe less competitive as a result of some of the studies that are going on. So it's very hard to know specifically what the outcome is going to be.

As a result of that, we prepare for a lot of different eventualities, and as I mentioned in my prepared remarks, one of the thing that happens if there is fragmentation is the value of data and market participants trying to reassemble the market for their own view goes way up. And that's partly been – the strategic thinking around here is to continue to build out our data services space, as we may see a value shift away from execution towards reassembling fragmentation.

Alexander V. Blostein  
*Goldman Sachs & Co.*

Q

Okay. Thanks for your perspective.

**Operator:** The next question is from Rich Repetto at Sandler O'Neill.

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

Q

Yeah, good morning, Jeff. Good morning, Scott. And I guess this is sort of a follow-on for some of the other questions, but you laid out, as would expect you would do, but the compelling strategic rationale for IDC end market data. But I guess, getting back to the growth question, when you look at the accretion, at least for us – we know you took out the buyback when you coupled the 5.7%, but was it even a concern to you to balance the growth of IDC versus sort of the positioning of ICE overall as a growth company, or is it just that compelling or are you just that confident that you will get the growth? I'm just trying to, I guess, dig a little bit further into what you would think and was it a concern of yours?

Scott A. Hill  
*Chief Financial Officer*

A

Yeah, look. I agree to it. As we look at this business, we absolutely believe there is an opportunity to grow it and for it to contribute to our overall growth profile. And frankly, that's true at the top and the bottom line. Jeff talked about the opportunities of the combined businesses. There are a number of new products that are in very early stages at Interactive Data that we are excited about.

Clearly, the \$150 million of synergies is an opportunity. I know that's not growth on the bottom line but it grows the amount of profit and the amount of cash that we generate for our investors. And as you know, that's where our focus has always been, is finding ways to generate more growth and more cash flows. And I'm supremely confident that this business gives us that opportunity.

I don't in any way see this as detracting from our overall growth profile. I frankly think it contributes to it. So we're very confident as we look at the company strategically in terms of what it can do for us from a growth standpoint, and look, I think I understand the interest in looking at one year's worth of accretion, but when we look at evaluation model, we look at the business over the longer term. And I believe you will find over time that this business is absolutely another example of where we put return on invested capital at the top of the list when we evaluate the deals we do.

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

Q

Okay. So I'm taking that answer as the growth was just as compelling as the strategic rationale for this?

Scott A. Hill  
*Chief Financial Officer*

A

[ph] You netted (32:20) out exactly that way.

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

Q

Okay. So my follow-up question, I got to do this to you, Scott. So our market data, as long as we're talking about market data, the existing market data at ICE, you did some accounting restatements, but it looks like you moved about \$13 million from other revenue into the market data, even when you exclude the – and this is a positive, but even when you exclude that, if you took \$13 million off of market data, you're still growing \$5 million quarter-to-quarter. And again, just trying to get the baseline of where we are at because you had sort of talked about being flat [ph] remember that \$10 (33:01) bet you won last quarter?

Scott A. Hill

Chief Financial Officer

A

I do. I think I already fell on my sword earlier in one of my answers, but I'll fall on it again. Look, in the third quarter, we did have a large customer true-up that occurred in the data business. Otherwise, it would have been up only a little bit from where we were in the second quarter and I would've been closer to it, right? But, frankly, I'm \$4 million happier that I was wrong.

So I do think that as you look to the fourth quarter, \$206 million plus or minus in that line on the new basis is probably about where we'll be. I'm just going to go ahead and say, I could be wrong on that plus or minus \$1 million or \$2 million, but that's what I think the expectation is as you look into the fourth quarter.

And again, Rich, I mentioned on an earlier answer, the thing that I'm really pleased with is we continue to see more customers consume the data. And I will tell you that's the thing I keep missing in my remarks to you, is that there continues to be growth in the interest in the data business that we've got.

And I think that feeds right back to your first question and Jeff's remark about why we are excited about Interactive Data. There's no question that the trend in the marketplace is that customers need more information. They need people to help them take all the data that exist in the world and turn it into information they can use. And that feeds right into the strategy and it's absolutely why I think that Interactive Data will contribute to and improve our growth profile and not detract from it.

Richard H. Repetto

Sandler O'Neill & Partners LP

Q

Understood, and congrats on the acquisition, guys.

Scott A. Hill

Chief Financial Officer

A

Thanks, Rich.

**Operator:** The next question is from Dan Fannon at Jefferies.

Daniel Thomas Fannon

Jefferies LLC

Q

Good morning. Can you help us think about pricing power within IDC's business and how we should think about or essentially how you're thinking about that going forward in terms of raising prices for their existing offerings? And if you can also indicate when the last time they actually passed it on to their customers?

Jeffrey Craig Sprecher

Chairman & Chief Executive Officer

A

I think the short answer is, we don't know because we don't own the business and we're not talking to their customers. But generally, the philosophy at ICE is not just to use, quote-unquote, pricing power. Our philosophy here is to increase the value add of whatever we provide and then couple that with an appropriate price increase. And I think that added to – really will bode well for IDC because we do see a lot of new product opportunities that are already in progress there that are coming through the pipeline that we'll benefit from and our customers are going to have a opportunity for a much more enriched view of the fixed income markets with those products.

I do note that there is a 98% revenue renewal with them, so, obviously, they are well-liked and well-respected at their current price levels or you wouldn't see that amazing continuation. But look for us to continue to be innovative with them, and we think we'll have an opportunity to do that.

Daniel Thomas Fannon

*Jefferies LLC*

Q

Great. And I guess just following on your existing market data business and pricing, are there any expectations for next year or two to see a general increase within certain of those services that we should be thinking about in terms of growth or incremental growth there?

Scott A. Hill

*Chief Financial Officer*

A

Yeah, as we get onto the fourth quarter earnings call, we'll start to talk to you more about what we expect for 2016 in the core business. But suffice it to say that we continue to look for ways to add incremental value to our data packages and to the customers of our data services. And as we have historically, as Jeff just alluded to, we don't look to raise prices just to raise prices. We look to make sure our prices reflect the value that we are delivering, and we will continue to evaluate that as we move not just into 2016 but in each subsequent year.

Daniel Thomas Fannon

*Jefferies LLC*

Q

Great. Thanks.

**Operator:** The next question is from Chris Harris at Wells Fargo.

Chris M. Harris

*Wells Fargo Securities LLC*

Q

Thanks, guys. When we think about the exchanges industry, historically your peers have, kind of, grown data between 3% to 5%, going back a number of years. I think you guys internally have a much faster rate of growth forecast built in. And so, Jeff, I know you highlighted a number of secular changes happening that should be really supportive of the data growth. But just wondering if there's anything specific or unique about ICE's data mix that would drive faster growth than many peers in the industry?

Jeffrey Craig Sprecher

*Chairman & Chief Executive Officer*

A

Well, I mean I think for ICE as a company that was a start-up, what we continue to see is a richer and richer data set. We start with data that was almost irrelevant and today are becoming quite an important data provider. And as we have gone through that transition and added more and more and more data and more services around data, what you've seen is cross-selling opportunities, the ability to build out a sales force to penetrate markets. And it's why Scott said, we continue to find new customers. I mean we are not thought of, I suspect, by most people as one of the historical data analytics vendors.

There are some well-known, well-entrenched competitors in that space. And so what we've been able to do is try to innovate, create some niche products, some things that are interesting, highly targeted to our customers. I think because we run and come out of trading and clearing operations, we are having constant dialog with our customers on what their strategies are and how they are managing risk, and we just continue to evolve our product set, so it's a better, faster, cheaper kind of strategy. But on top of that is the secular trend that I'm mentioning, which is just regulatory pressures, fragmentation pressures, and better and more interested ability by managers to have real-time information that's just growing, I think, the business for everybody.

Chris M. Harris

*Wells Fargo Securities LLC*

Q

Got it. It makes sense. And really quick follow-up for Scott. Can you update us on where we are on NYSE synergies? How much more needs to come out there?

Scott A. Hill

*Chief Financial Officer*

A

Yeah, so we continue to make good progress towards our overall objectives from the NYSE synergies. I think we had mentioned that as we exited this year, we'd be something like 90% done on those and we are well on track to that. And I think we clearly with some additional corporate functions that we'll integrate next year, some real estate that we consolidated towards the end of this year and then as project, Pillar, moves on throughout 2016, I think that will push us towards the final synergies that we had committed originally.

Chris M. Harris

*Wells Fargo Securities LLC*

Q

Okay, thank you.

**Operator:** The next question is from Ken Hill at Barclays.

Kenneth W. Hill

*Barclays Capital, Inc.*

Q

Hey, good morning, everyone.

Jeffrey Craig Sprecher

*Chairman & Chief Executive Officer*

A

Good morning.

Kenneth W. Hill

*Barclays Capital, Inc.*

Q

So when I look at the data business, you guys have been moving too, with this acquisition here as well, more of the hard-to-price products, some of the analytical stuff supported by the raw data. But it still looks like a good portion of your business today relates to some of that trading data from your futures exchange, from your cash equities exchange versus sources like Safety, SuperDerivatives or IBA. So when you think about the outlook for maybe that core, kind of, raw data business there as that becomes, I guess, a little bit more commoditized, how should we think about the competitive environment and maybe the growth prospects there?

## Jeffrey Craig Sprecher

*Chairman & Chief Executive Officer*

A

Yeah, as I mentioned, I think the markets are going to continue to fragment. I think just all this new regulation that's going in is really vulcanizing market. And the incumbent exchanges like ICE, we continue to challenge all the other exchanges around the world by listing their products and looking for niches. And so there is just this trend that's going on right now that I think you're going to see markets fragment.

So, even raw data that comes from exchanges has to be consumed by people that are trying to reassemble these markets. And so for a while, while we go through this transition, I think even raw data is valuable. But what we're investing in and what we're building is really valuation services.

If you look at what Interactive Data does, it really is using technology to come up with valuations. If you look at what SuperDerivatives does, it's using technology to come up with valuations. If you look at our ETF calculator business, if you look at ICE Benchmark Administration, all of those are technological ways of trying to derive prices, related prices. And couple that with this massive clearing system that I mentioned where we are also trying to take portfolios of positions and derive their actual risk. That's the value-added business. And that's the business that's going to grow.

It does need the raw data as inputs but the real value add and the things that people want to pay for is the technological piece. And what we built is a financial services technology company here that's been quite good at marshaling data around and understanding how these products all relate to one another. And I think that's the secret sauce where we're going to continue to invest.

## Kenneth W. Hill

*Barclays Capital, Inc.*

Q

Okay. And I know you guys a couple of times have mentioned new users as a nice tailwind for the data business. What's really driving the uptick in new users? Is that something you guys are doing with the sales force or are you really targeting specific groups or is that just having a product that no one else has? And how can we think about the new user growth that you start to layer in a whole new large customer base here? And I guess do you need to invest more, I guess, in the sales force to get, I guess, better integrated with some of these risk management groups and index groups over time?

## Jeffrey Craig Sprecher

*Chairman & Chief Executive Officer*

A

It's a combination of both. We do have a lot of proprietary products, things that we've created around here that are not unlike IDC where we are getting data out of cash markets and markets that don't trade on exchanges, and coupling those with the more commoditized data and selling it as a package, which is part of what we've been able to do.

In terms of the sales force we now have with Interactive Data Corporation, there's going to be an amazing sales force footprint that comes with that company that we'll be able to blend together with our sales force and really, I think, be able to touch a lot of customers.

I mean we mentioned in the prepared remarks that IDC's customer base is literally every significant asset manager, every significant bank and fund around the world. So in that group are people that we don't touch. And some of them won't have any particular interest in some of the things we do, but some will, because of just their breadth and size and scale of some of these companies that, I think, are going to want to see a lot of things.



The other trend that's going on is that the passive investment trend is just people creating more and more unique portfolios that need real-time valuation. And that business, for us, is partly what leads to our 95% listings market share of ETFs in the United States and how we have been able to approach that business, and we are going to get better and better and better at that with the addition of Interactive Data's valuation skills.

Kenneth W. Hill

*Barclays Capital, Inc.*

Thanks for taking my question.

Q

**Operator:** The next question is from Ken Worthington at JPMorgan.

Kenneth B. Worthington

*JPMorgan Securities LLC*

Hey, good morning.

Q

Jeffrey Craig Sprecher

*Chairman & Chief Executive Officer*

Good morning.

A

Kenneth B. Worthington

*JPMorgan Securities LLC*

First, maybe for Scott, balance sheet and leverage. With so much recurring revenue now, why is 1.5 times leverage the right number and what are your thoughts about pushing the balance sheets more given the revenue mix with IDC?

Q

And then in terms of deleveraging, I think, in the prepared remarks, you talked about doing it over two years. And it seems like in my model, I could get you to de-lever much more quickly. So maybe, is there a lot of CapEx that you would expect with this deal or would you continue to be buying back stock as you de-lever, what's the thought there?

Scott A. Hill

*Chief Financial Officer*

So, I think, our target remains to operate around 1.5 times. That is the expectation that the rating agencies have for a company that's a solid [ph] thing to lay (46:15), which is what we believe is appropriate for the company. In terms of why that's their view, I agree with you, it is a much stronger recurring revenue base, but that is the view the ratings agencies take and we think that rating is important to us as the operator of the largest clearing operation in the world. So we're going to continue to target getting back to around that number.

A

In terms of the time it takes to de-leverage, I think we've conservatively said that it would take two years. I think the point is that while we will continue to pay our dividends, our cash flows will go to de-leveraging. You'll likely recall from the NYX deal that we were able to de-leverage faster than we had originally anticipated. I'm hopeful that that will be the case here as well. But as we sit here today, as I look at the models that we put together, I think the two-year de-leveraging path is a reasonable expectation with a continuation in dividend and not doing share repurchases.

Kenneth B. Worthington

*JPMorgan Securities LLC*

Q

Okay, great. And then, Jeff, the deal is being pitched as a way to accelerate IDC's growth, but does it work the other way around as well? Does IDC help ICE's core business? And some of my thoughts but they could all be bogus, but like does it help move business on-screen? Does it help risk management or margining on the clearing side? Does it drive volumes maybe to greater level? So how does IDC help ICE's business?

Jeffrey Craig Sprecher

*Chairman & Chief Executive Officer*

A

You nailed it. That's exactly how we are thinking about it. The operation of clearinghouses used to be a back-office function that was not thought about. Today, it is a real business. And in fact, it is a business that's being mandated by regulation and is going to become more and more regulated, and the opportunity to grow it is going to be because we become more and more sophisticated. And valuation is what we do. That's what a clearing platform is.

And so when we decided to try to help the large financial institutions get the credit default swaps off their balance sheets after the Lehman collapse, we had to develop all-new models. And we had to hire large staffs of quantitative analysts that could figure out how to value a product that had been misvalued prior to that. And we really have developed a skill set there, and we just saw that opportunity as like the light bulb went on and said, we should just continue to build out those valuation systems, and we should be the best in the world because that will be our competitive advantage over the long haul for clearing.

Increasingly, because of capital constraints on banks and others, the market's going to want to have sophisticated valuation of their collateral and wider and broader types of collateral that can be accepted. And that's only going to be allowed by regulators if they have confidence in the people that are operating these things that that collateral can be stress tested and properly valued. So it's a holistic view of where the market is changing.

As I mentioned, we started the company by creating an electronic matching engine. Today, we have competitors that will actually pay market participants to use their matching engine. So the matching engine itself, which was the thing that was so valuable that started this company at the height of the dotcom boom, today others are not only giving it away for free but will pay people to use it. So there has been a transition of where the market is perceiving the value of these marketplaces, and it's really in the risk management capabilities and that's where we have been investing since 2007.

Kenneth B. Worthington

*JPMorgan Securities LLC*

Q

Okay. Thank you.

**Operator:** The next question is from Brian Bedell of Deutsche Bank.

Brian B. Bedell

*Deutsche Bank Securities, Inc.*

Q

Hi. Good morning, folks. Let me just ask a question for Scott and switch to the cost side, the \$25 million in cost saves going to \$150 million by the end of year three. Can you just touch on the run rate of that if that's a linear growth rate into the \$150 million, were there other step functions in that? And also refresh us on what you think the NYSE cost save run rate will be in 4Q this year, and then just refresh us on the incremental cost saves for 2017 from the NYSE?

Scott A. Hill  
*Chief Financial Officer*

A

Yeah, so, with regards to the Interactive Data synergies, the \$150 million, we noted that we expected that we would be able to realize roughly 25% of those synergies in the first year post close, so effectively 2016. My expectation is from there you will see us likely about 65% done give or take a little bit as we move to 2017, and then the large majority completed in 2018 with some and subsequently delivered in 2019. So, that's kind of how I am thinking about the run rate right now. Clearly, as Jeff alluded to, and I've mentioned a couple of times, we've got work to do. Once we're able and have closed the deal to refine some of those assumptions, then obviously we'll be back to talk to you about it.

With regards to the NYSE synergies, as I've mentioned, we're two years post close of that deal now. We've bought businesses, we've invested in businesses, trying to show you where inside our expenses you see an exact number, I think, is difficult to do. What I'd point you to is a quarter that despite a significant adjustment in our bonus accrual was nearly 60% margins that are right on track to where we said they would be two years ago, and then I would refer right back to the remarks I made earlier, which is we are exactly on pace to where we thought we'd be at this point and we got the actions that are necessary to help us complete those synergies as we move through 2016. And again, where you're going to see that is going to be in our margins. It will not be easily seen embedded in what is a highly evolved and different expense base and existed two years ago.

Brian B. Bedell  
*Deutsche Bank Securities, Inc.*

Q

Okay. Okay, great. And then a question for Jeff. Just, I guess, a big picture on the data business as you put everything together, and clearly the revenue synergies from IDC seem compelling longer term. As you think about when you have IDC in the run rate fully and SuperD is fully integrated, how do you view the longer term growth in the data business for ICE inclusive of the synergies over time? And then if you also want to layer in the potential pricing model for the ICE Benchmark Administration, which sounds like it still has a good, sort of, hockey stick upside to it?

Jeffrey Craig Sprecher  
*Chairman & Chief Executive Officer*

A

Yeah. It's hard to know. I view my job as really trying to identify the trends and behaviors in the industry and get our boat oriented towards those wins and get the sail put out there. And you can see right now and we can see it in our own data that in our own customer usage data and the conversations anecdotally we're having with customers as this change is going on in the markets, I know I just re-upped my cell phone plan and I bought more data.

So as an individual, somehow I am consuming more data and the tools for me to do that get better and better, and I've got them on a phone that I keep in my pocket. So that is a microcosm of what's going on at a bigger scale in the risk management business. And we've got the sail and the wind here. And I think it's going to have legs, because I really do think underneath it, in addition to regulatory pressures, which are not going to go away, fragmentation pressures, which I don't think are going to go away, even though end users don't love that. But the powers of vulcanization are pretty big right now. I think this trend's going to last for a while.

Brian B. Bedell  
*Deutsche Bank Securities, Inc.*

Q

And then just on the Benchmark Administration business in terms of the pricing model, where are you in that stage of evolution? Is there a lot more to come down the road?

Jeffrey Craig Sprecher

*Chairman & Chief Executive Officer*

A

Well, it's an immature company. We just announced another new product that we are going to start here in October. But when we stepped back and looked at our portfolio, I mean what's amazing is, ICE as an owner of key benchmarks now with LIBOR, with Brent crude oil and gas oil, with many of our major natural gas indices, with the dollar index, we've on our own acquired and own a very interesting portfolio of indices, and move towards passive investing is coming also into the commodity and derivatives space. It's following what you see in the equities space. And those key assets become more and more valuable, and there is more interest in them and so we are at a very immature state.

**Operator:** The next question is from Chris Allen at Evercore.

Christopher John Allen

*Evercore Group LLC*

Q

Good morning, guys.

Jeffrey Craig Sprecher

*Chairman & Chief Executive Officer*

A

Good morning, Chris.

Christopher John Allen

*Evercore Group LLC*

Q

Just, Jeff, you've kind of harped on the fragmentation thesis moving forward. And for IDC, [ph] their continuously evaluated pricing for (56:30) fixed income, the real-time data products seems very compelling. Just wondering if you guys have given any thoughts in terms of what the market opportunity there is in terms of revenue and whether that can be leveraged into trading platforms for some of the cash bonds, that cash bond markets that are out there and which markets, if any, you think are prime to take a step towards electronic trading?

Jeffrey Craig Sprecher

*Chairman & Chief Executive Officer*

A

Well, I think we'll have more to say on that over time as we own the business and are able to talk deeper with market participants. But clearly, there is a trend that's going on for more transparency around the fixed income markets. And as people are increasingly concerned about what is the liquidity available in those markets, there is going to be more and more pressure to be able to see that liquidity and have it displayed in some manner.

So Interactive Data is already pretty active in that area, supporting others, third-party platforms and some of the new generation of entrepreneurs that are trying to solve that problem. We have a number of initiatives going on that are actually doing well in the fixed income space that are derivative of our credit default swap business that we may be able to help supercharge. So I'm cautiously optimistic that that nut will get cracked. It'd be nice if it was us, but if it's not, we're going to certainly support other entrepreneurs because this real-time data is incredibly valuable and helpful to somebody trying to solve their problem.

Christopher John Allen

*Evercore Group LLC*

Q

Got it. And then just a quick one, on the financing for the deal, the debt being raised at 2.75%. If I recall, I think you have \$2 billion you can tap for commercial paper and then I'm assuming that will be tapped and the rest will be raised in the public markets? Is that the correct way to think about it?

Scott A. Hill

Chief Financial Officer

A

I don't think we'll likely exhaust all of the CP capacity. And I think the bond markets right now are attractive for a company that's a solid investment grade company like ours. And I think it's likely that you'll see us work to take advantage of that attractive market in terms of our ability to fix some of that debt structure over time.

Christopher John Allen

Evercore Group LLC

Q

Thanks, guys.

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

Jeffrey Craig Sprecher

Chairman & Chief Executive Officer

Thank you, Amy. Thank you all for joining us this morning. We are excited about what we are doing and we'll continue to refine our analysis and comments and be prepared on our next quarter call to give you further insight into our strategy and how it's going to evolve for shareholders. So, thank you very much. Have a great day.

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

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