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# Intercontinental Exchange, Inc. (ICE)

Q1 2016 Earnings Call


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# MANAGEMENT DISCUSSION SECTION

**Operator**: Good morning and welcome to the Intercontinental Exchange First Quarter 2016 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. [Operator Instructions] Please also note, today's event is being recorded.

I would now like to turn the conference over to Kelly Loeffler. Please go ahead.

## Kelly Loeffler
*Senior Vice President, Corporate Communications, Marketing & Investor Relations*

Good morning. ICE's first quarter 2016 earnings release and presentation can be found on both the homepage and 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, adjusted 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, and adjusted earnings refer to adjusted diluted earnings per share.

With us on the call this morning 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. As Kelly mentioned, the slides to which we'll refer this morning can also be found on the ICE homepage. I'll begin on slide four of that presentation where you'll see that we delivered another record quarter, including adjusted earnings per share, which rose 20% as reported versus the first quarter of 2015.

As this is the first full quarter including recent acquisitions, unless otherwise noted, year-over-year figures will reflect comparisons against adjusted pro forma first-quarter 2015 results. On that basis, ICE's first-quarter 2016 adjusted earnings per share grew 19% to a record $3.68. Both our trading and clearing segment and our data and listing segment contributed meaningfully to first-quarter revenues, which in total, grew 5% to $1.2 billion.

This solid revenue performance combined with disciplined expense management allowed us to expand operating margins by five points to 59%. Equally important, these results helped generate strong operating cash flows,


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which enabled us to pay over $100 million in dividend, up 14% from the fourth quarter, while also allowing us to significantly reduce our leverage, which stood at only 2.5 times just three months post the closing of the Interactive Data transaction.

Moving to slide five, you'll see the component of our strong earnings growth. Revenue growth of 5% combined with a 6% decline in adjusted operating expenses generated adjusted operating income growth of 14%. Net income attributable to ICE grew 18%, and we delivered our seventh consecutive quarter of double-digit earnings growth.

We achieved these strong results despite a challenging quarter for institutional trading desks, continued regulatory change, and while executing on a range of strategic initiatives. From the integration of previously-acquired companies and continued product and technology innovation to evaluations of additional value-enhancing M&A opportunities. We remain committed to generating strong financial performance in the current period, even as we develop strategies to enhance our returns on investment in the future.

Turning now to slide six, I'll walk through our new segment reporting. First quarter consolidated revenues increased 5% year-over-year to nearly $1.2 billion. The chart on the left side of the slide shows our revenues were evenly split between our trading and clearing segment and our data and listing segment.

Turning to the table on the right side of the slide, you'll note a similar balance of growth across the diverse line items that constitute each segment. For example, as shown on the table, total trading and clearing segment revenues grew 4% year-to-year, with solid contributions from both commodities and financials, which grew 5% and 4% respectively. Within those balanced results, ICE Brent, sugar, Euribor and U.S. cash equities each grew double digits.

Our data and listing segment revenues grew 5% in the first quarter. Our pricing and analytics revenues were up 6% and exchange data revenues were up 9%, both driven primarily by new users and new products. As these results demonstrate we are already seeing the expected acceleration in the growth of the legacy interactive data price reference data business.

This strong start further supports our confidence that our data revenues can grow 6% to 7% on a pro forma basis for the full-year 2016.

Finally, listings revenues grew 3% over the prior first quarter, despite a quiet IPO environment. The growth in the first quarter and our confidence in our listings business will continue to grow throughout 2016 is due to our clear leadership and capital raising activity at the NYSE over the last few years. And I'm pleased to say that we've already seen a handful of IPOs early in 2Q and our pipeline continues to build.

Let's shift to slide seven where I'll cover our disciplined expense management and provide an update on expense guidance and synergies.

First quarter adjusted operating expenses declined 6% year-over-year to $476 million and pro forma operating margin expanded by five points. Our first quarter expenses included higher-than-usual M&A related spending, but that was largely offset by some 2015 credits and compensation and professional services.

The period also benefited from the release of roughly $11 million of non-income tax related reserves, which was partially offset by a few non-operating expenses below the operating income line. More importantly, even adjusting for these impacts, we would have been below our expense guidance as we once again realized synergies sooner-than-expected.

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This strong first quarter expense performance and our updated synergy expectations result in us lowering our full-year expense guidance to between $1.97 billion and $2.0 billion. This improved guidance reflects expected 2016 expense synergies of $85 million to $90 million, that's up from prior guidance of $75 million, and this includes $30 million to $35 million from Interactive Data, which has also improved from prior guidance of $25 million.

For the second quarter, we expect expenses in the range of $495 million to $505 million. The second quarter will be the first one to reflect the full impact of 2016 compensation increases and we will also see a pickup in investments related to business development and CapEx. I'll conclude my remarks on slide eight with a review of our solid cash generation, improving leverage profile and ongoing capital return.

We generated nearly $600 million of operating cash flow during the first quarter, which enabled us to invest in growth even as we reduced our debt by over $500 million and returned over $100 million to our shareholders through dividends. As a result of our strong cash flow generation, we reduced our adjusted debt-to-EBITDA from 2.8 times at the end of 2015 to 2.5 times at the end of the first quarter.

We now believe we can reduce our leverage below 2 times by early next year, which we think is sufficient to maintain our current debt rating, while also creating more flexibility for additional capital returns.

We also increased our first quarter dividend payout by 14% versus the fourth quarter, consistent with our commitment to grow the dividend as we grow our earnings. Our record first-quarter results show our continued focus and execution across our businesses.

We delivered solid revenue growth, strong operating margin expansion, and once again, double-digit earnings growth. And importantly, we see strong demand from our customers and encouraging trends across the markets we serve.

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

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## Jeffrey Craig Sprecher
*Founder, Chairman & Chief Executive Officer*

Thank you, Scott, and good morning to everyone on the call. The first quarter of 2016 was the best quarter in our company's history for both revenue and earnings. And it was our seventh consecutive quarter of double-digit earnings growth. We delivered 20% earnings per share growth in the quarter, as a result of expanding our revenues and reducing expenses, and while making investments for long-term growth. These strong results demonstrate our consistent focus on increasing our top line, expense discipline, cash flow generation, returns on invested capital, and our capital returns.

This morning we announced our decision to end our current review of a potential offer for the London Stock Exchange Group. We thought that the combination may have a compelling rationale, including bringing together the premier transatlantic capital raising venues, offering complementary interest rate and financial products, and providing widespread equity LIBOR and fixed-income indices, together with extensive market data.

So, over the last year members of our board and our advisers attempted unsuccessfully to arrange meetings through the LSE Chairman to discuss these ideas. Then, following our public expression in March of interest under the U.K. takeover code, the LSE Chairman and CEO did not engage with ICE.

Notwithstanding, we spent the last two months reviewing the data that we were provided with our financial advisors, auditors and legal and regulatory experts to determine whether our operations, expense basis and


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governance structures would result in a strategic combination that would meet ICE's return on investment thresholds, while offering LSE shareholders a meaningful share price premium.

The disappointing level of engagement of the LSE ultimately did not allow us to make a complete determination of the integration benefits and their related risks that ICE would require to support a bid.

We are committed to building on our track record of creating shareholder value by achieving the targets that we set at the outset of our strategic transactions. Because we were unable to establish to our satisfaction the financial models, risk undertakings and integration plans needed to set such targets, we're turning our focus to other opportunities to build on our track record of growth.

As our results today show, our deliberations did not get in the way of ICE growing its revenues, increasing synergies, reducing expenses, utilizing our strong cash flows to de-lever and increasing our dividend. I'm proud that our team has once again delivered strong operational results and the best quarter in our history, even as we considered strategic opportunities. And I'll now highlight some of the opportunity set that we have starting on slide nine.

Our team has driven a range of new initiatives in recent months. From launching our Singapore exchange and clearing house to introducing new equities trading platforms and issuer services at NYSE to expanding our data valuation and network businesses, each of these initiatives is on track, thanks to our global team that drives these efforts.

So let's start with data, which is our most recent area of expansion. It's worth noting that 10 years ago, in 2006, 11% of our consolidated revenues were derived from market data. Today, 41% of our revenues are from our data business, where the breadth of our products and services continue to expand.

We're already seeing the benefits of enhancing the consistency of our revenues with solid margin and growth profile that subscription revenues bring. We've long seen the trend of more data and connectivity consumption as markets became more automated, regulated and cleared. And we've been an early mover in addressing the rising demand for information and analytics across virtually all asset classes.

This is similar to our recognition of clearing becoming a central piece of market infrastructure a decade ago. And I'd like to note that even today the category of exchange data, which is our tradition proprietary data, is still 11% of our significantly expanded total revenue base; and it continues to grow alongside of our highly-complementary trading and clearing businesses.

We've previously discussed the secular drivers of rising data demand, including regulatory reform, automation, unbundling, fragmentation and the move towards passive investing and indexation, just to name a few. These secular trends are also driving growth and the other recent additions to our data business, pricing and analytics, desktops and connectivity.

Our acquisitions over the last three years including NYSE Euronext, SuperDerivatives, Interactive Data and Trayport bring a unique range of assets to support our growth. Our new services range from real-time bond pricing and indices to global infrastructure for exchange and broker connectivity to widely distributed desktops.

We continue to make great progress on the advancement of Interactive Data since its closing in December. Last month we launched the ICE U.S. Treasury indices to leverage the index business that was part of the NYSE with the capabilities we found at Interactive Data, and we're in the process of aligning our global sales and shared services teams to better serve our customers and realize efficiencies.


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Moving now to slide 10, I'll note that growth in our global markets and clearing houses continues. Just as with data, there are similar secular growth opportunities as the markets continue to evolve. Customers are increasingly adopting hedging practices, as well as more recently, seeking those solutions to do so in the most capital-efficient manner.

And hedging is needed regardless of price levels of commodities. Nearly two years ago when oil prices began falling, many suggested that trading and clearing volumes would decline with prices. The reality is just the opposite, because absolute price levels tend not to drive risk management activities, volatility does.

In our global oil and agricultural products, we've seen consistent demand for the risk management that our exchanges and clearing houses offer. Our core benchmark contracts continued their growth and innovation. For example, ICE Brent Futures set volume, revenue and open interest records in the quarter, and spawned the launch of a Brent contract to better serve our Asian customers at ICE Futures Singapore.

Growth in our agricultural markets were once again led by our world sugar contract, with revenue up 17% over the prior first quarter. Our financial markets ranging from European rates to global index benchmarks to credit markets also continued to strengthen.

In our Euribor contract, which is Europe's short-term interest rate benchmark, revenue increased 34% year-to-year on Central Bank actions and the dynamics around the euro, pound and dollar.

Volume in our equity index complex across FTSE, MSCI and Russell grew over the prior first quarter, consistent with our cash equities and actuary options markets where volatility continued to drive growth.

I'll wrap up our strategic highlights on slide 11 with an update on our achievements at the New York Stock Exchange where we're delivering on the synergies that we promised, as well as driving new revenue growth.

Our investment in new systems coupled with simplifying our offerings continues to create a better market structure for market participants. In U.S. cash equities, we had a record quarter with strong volume and market share that continued to grow, coupled with strong revenue capture. We led in ETP listings, with 82% of the new assets under management choosing to list with NYSE this quarter. And we maintained listings for 92% of all U.S. ETP assets under management.

We continue to be the premier listing venue due to our liquidity, tight bid/ask spreads, and the amount of time that these securities trade at the national best bid and offer price on our exchange. We're working closely with ETP issuers to help enable their ongoing innovation to grow this investment category.

In our NYSE listings business, revenue grew despite the quiet quarter for IPOs. And we have great momentum with an IPO pipeline that began to open up in April. We're expanding issuer services and rolling out our new NYSE Connect platform to our listed companies later this month.

These services are an important part of the value proposition that we bring to our listed companies and these are not a revenue line item for us, but part of what drives our leadership in listings. There remains no more trusted model for our issuers, which is why the NYSE is growing with the first quarter representing the best quarter in its 224-year history.

I'll close on slide 12 noting our track record of growth, execution and results. This year has already been a productive one, just one quarter in. We reviewed and chose not to pursue the LSE transaction. We grew revenues,

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reduced expenses and increased synergies. We continued to expand margins and drove double-digit earnings growth. And we invested for growth, repaid debt and returned dividend capital.

So I'd like to thank our customers for their business in what was the best quarter in our company's history. And I'd like to thank our team for their continued hard work. My colleagues and I look forward to continuing to update you on our progress throughout the year.

And with that, I'll now turn the call back to our operator, Rocco, who'll be glad to turn you on so that we can take 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 Michael Carrier of Bank of America Merrill Lynch. Please go ahead.

Michael Roger Carrier
*Bank of America Merrill Lynch*

Q

Thanks, guys. Hey, Jeff, just given the announcement today and looking at kind of the growth initiatives that are in front of you, just wanted to focus on the data and I think the clearing side of the business. It looks like you're seeing some good traction. I think the outlook for that 6% to 7% growth. Just wanted to get an indication you mentioned new users driving some of that, I know you guys are been active on producing new products and services, but any indication of what's driving that? Where you're seeing that increased demand? I know there's a lot of regulatory changes whether it's on the banks and the FCMs or on their clients, in terms of trying to figuring out, how to hedge, how to clear, in this kind of dynamic and changing landscape? So just wanted to get a sense on, where you that playing out, and any kind of incremental granularity that you can provide? Thanks.

Jeffrey Craig Sprecher
*Founder, Chairman & Chief Executive Officer*

A

Sure. Let me start and then I'm going to ask Scott to give you a little more detail behind the numbers. But when you step back, one of the changes that I've noticed at ICE is that when we acquired Creditex, Creditex had a platform that was once called T-Zero, today it's called ICE Connect that was connected to hundreds of buy-side participants. And we continue to grow that connectivity since we acquired the firm and used that to link the buy-side to our clearing houses.

Then when we acquired SuperDerivatives and ultimately Interactive Data, we acquired sales teams that had even more connection to the buy side. And at the New York Stock Exchange every quarter we have large quarterly meetings with significant buy-side participants that I also attend, as well as many of my colleagues.

And so long story short, what has gradually happened in our company is that we've been able to broaden our footprint and our touch-points to ultimate end users, and they are the ones that are really driving the growth of more screens and more consumption of information.

Scott A. Hill
*Chief Financial Officer*

A

And I think we tried in our data and listing segment to break out the revenue lines to give you a perspective along the lines of what Jeff described. If you noticed in the quarter, our desktops and connectivity revenues were up 3%


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and that's more people wanting to get connected to us and once they're connected to us that allows them to consume the data products that we're selling and the breadth of the offering that we've got continues to grow and then that translates up into what you saw in our pricing business that grew 6% and our exchange data business that grew 9%.

I've talked to you over the years and I look at it every single month, what's going on with the number of users around our exchanges and that tends to be driven by what's going on in the oil markets or the commodity markets generally. And that line has continued to trend up, but now by being able to supplement that with the business that we bought at Interactive Data to offer more products through a seamless and secure connection, that combination gives us the confidence that the overall business will grow 6% to 7% for the year, which is an acceleration of what we've seen over the last year or so and also versus what we saw at Interactive Data in their history.

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Michael Roger Carrier
*Bank of America Merrill Lynch*

Q

Okay. That's good. And then, Scott, just on the expense guidance, I get the lower for the year, in terms of the synergy recognition. Just wanted to understand, I think you mentioned just in the 2Q, the pick-up that we're seeing just on a sequential basis. Did you say that's more driven by just the annual comp and some CapEx? And then, I think – I don't know if there was anything in 1Q that depressed the number, but I just wanted to make sure we were clear on that?

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Scott A. Hill
*Chief Financial Officer*

A

Yeah. That's a good question. There's a little bit of noise in the first quarter expense, so I appreciate you asking it. So, it's really driven by two things primarily, first of all, in the first quarter as I mentioned, we had the release of a non-income tax reserve of about $11 million, those happen from time to time. The size or timing is difficult to predict. So that's not something we would expect to repeat in the second quarter. And so that would cause a natural increase in SG&A quarter-to-quarter.

And then the second part of it is what you mentioned, the compensation increases really don't kick in for us until March. And so effectively, in 2Q, 3Q and 4Q you get a full quarter versus one month and that would push comp up probably $9 million to $10 million on a quarter-to-quarter basis. And embed in there as well is an R&D tax credit that we had in the first quarter. So overall, those are really the two key drivers that move you up quarter-to-quarter. My expectation is, in the range, we'll probably be in the lower part of that range in the second quarter, and then we'll stay within that range trending slightly higher within it as we move through the rest of the year.

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Michael Roger Carrier
*Bank of America Merrill Lynch*

Q

Okay. Thanks a lot.

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

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

Q

Yeah. Good morning, Jeff; good morning, Scott, and congrats on the...

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**Jeffrey Craig Sprecher**
*Founder, Chairman & Chief Executive Officer*
A

Good morning.

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

...congrats on the improved guidance both revenues and expenses. So my first question, Jeff, is when you described the LSE transaction, clearly in the frustration sort of rung out. And it seemed that like that you're pulling out of the bidding, not based on the merits or the fundamentals, but rather the engagement that you've received from the LSE. So I guess, the question is, is there any other legal avenues to pursue, or is there – what does the UK takeover law provide that if the engagement was there, to allow you to evaluate the transaction like you want to?

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**Jeffrey Craig Sprecher**
*Founder, Chairman & Chief Executive Officer*
A

Well, thanks for the question. I think the point I really want to make is that we have a history of doing M&A deals, and we have a very strong history of delivering on whatever we say we're going to do at the outset, and that's an important metric that we have here on how we want to talk to our shareholders, partly why I think we've had permission from our shareholders to do M&A as that we've earned their trust that we will deliver what we say we're going to do and that they can count on it.

And so, when we can't get visibility and don't have confidence, it makes it very, very hard for us to look our shareholders in the eye and suggest that we are going to deliver a specific amount of performance. And I don't have anything under the takeover code that's going to change that perception. It takes engagements in order to come to those kinds of determinations. And I'll just leave it at that.

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

Okay, all right. And I guess my follow-up question, Jeff, would be, again having to do with the UK, but the Competition and Markets Authority they've announced they've launched an in-depth, I guess, what they term an in-depth investigation into the Trayport transaction. Can you talk about that? It's already closed. I know it's unusual circumstances, but what's your position, and does that put the Trayport platform at risk, I guess?

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**Jeffrey Craig Sprecher**
*Founder, Chairman & Chief Executive Officer*
A

Sure. First of all, it's actually not unusual circumstances. The way the UK takeover works is that they have a period of time after closing to review a deal. So we fully expected that review, in the way the process works. And frankly, obviously, we're cooperating fully, and we believe that ultimately the CMA is not going to object to us owning Trayport in the way we operate it.

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

Okay, all right. Thanks for the color. I appreciate it.

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**Jeffrey Craig Sprecher**
*Founder, Chairman & Chief Executive Officer*
A


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Thanks.

**Operator**: And our next question comes from Alex Kramm of UBS. Please go ahead.

Alex Kramm
*UBS Securities LLC*

Q

Hey. Good morning, everyone.

Jeffrey Craig Sprecher
*Founder, Chairman & Chief Executive Officer*

A

Good morning.

Alex Kramm
*UBS Securities LLC*

Q

So, just coming back to the LSE discussion for a minute. I think when those discussions first started, I think the initial view investors took was like, oh my God, competition is going to increase substantially when Deutsche and LSE get together. So I'm curious about your view of how you view your competitive position if those two actually end up getting together, which I guess, is not a foregone conclusion. But also in terms of the integration challenges that they might have, kind of like the combining clearing houses, different cultures, so maybe any opportunities that you can capitalize on, while these guys might be a little bit distracted over the next couple of years?

Jeffrey Craig Sprecher
*Founder, Chairman & Chief Executive Officer*

A

Sure. Well, first of all, I don't want to comment too much because they're going to go through a competition review that's going to open up a lot of opportunity for the entire market to comment on competition issues. And so I don't want to prejudge any of that. But with respect to their offering, it's been very unclear to us what is being offered. And so I don't know how to react to it.

Let me just make one point of color about our company, unrelated to them. I want to be very clear, I'm talking about ICE. ICE operates clearing houses around the world. We operate largely on a common technology platform. We have global customers that we serve, and in many of our clearing houses we have highly similar or highly correlated products. If it was easy to figure out how to net that down, we would be doing it because we have every incentive in the world to offer the best offering that we can for our customer base.

The reality is that in different jurisdictions there are different bankruptcy regimes and when we – just as we saw when MF Global collapsed, the way people were treated in the U.S. as soon as the court stepped in and the administers, and the way people were treated in our clearing houses outside the U.S., was very different, even though the products were similar, the customers were similar and the risks were similar.

And so these things complicate the ability to do cross-border integrations. We continue to work on it. We've been actually working on that topic for years. Had lots of dialogue with regulators and customer s on how it might be accomplished, but it is a very difficult problem to solve because at the end of the day, people don't want money in flight cross-border at the moment of bankruptcy, and regulators tend to come in and regulate locally during these moments of stress. And that's just a fact that all of us are trying to figure out how to work around.

Alex Kramm
*UBS Securities LLC*

Q


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Thank you for that limited color you can give, I guess. And then secondly, on the data side, just coming back to ask one question – actually one quick one for Scott as well. Scott, the 6% to 7% guidance on data, I assume that's organic. That doesn't include whatever you are buying from S&P, which I believe is $100 million annualized revenues, so just clarify that?

And then for you, Jeff, on a bigger picture, you mentioned integration of sales teams, and really getting, selling IDC products again. When we talked to management of IDC last year before you owned them, it sounded like they had really been focused inwards, and getting the products right, and not really selling. So just wondering where you are in that process of actually selling again. And just as one anecdote, we talked to one bank the other day, they said they don't even know who their IDC salesperson is. So it seems like some things can still need some fixing, so maybe just tell us where you are in the process? Thanks.

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**Scott A. Hill**
*Chief Financial Officer*
A

So I'll be quick and then I'll hand it over to Jeff. The 6% to 7% is pro forma growth for the businesses we currently own. So it doesn't include any businesses that we will own in the future, and I'd also taken opportunity to repeat what I said on the last earnings call that, that 6% to 7% for the year will also reflect market data revenue that we anticipate will accelerate sequentially as we move through the year as well.

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**Jeffrey Craig Sprecher**
*Founder, Chairman & Chief Executive Officer*
A

And on your question, I think you're market intelligence and feedback is spot on, which is at Interactive Data, they have various ranges of products and have various salespeople that specialize in those products, but they did not have an overall comprehensive way of touching customers.

If you add that to ICE that has SuperDerivatives, that has people at the NYSE, that has other connectivity, has our ICE Link platform. We have people selling clearing and exchange data solutions. We also have all these various touch points. And so the real effort that's going on now is to bring everyone together, so that we have single points of contact for our large customers, so that they know how to get access to the entire suite of products that we have. And we can see already that that's just in the early stages and we can see already that just the work that we've done alone around IDC has improved our sales function, and has allowed our revenues to grow and we think it's only going to get better.

It's a high priority for us because we really do believe that this company grows by having a close relationship to our customers because they end up giving us ideas and ask – tell us about their problems and give us an opportunity to create solutions that they will ultimately acquire from us. And so it's very, very high priority and it's the work that's going on right now. It's also part of why Scott was able to increase his synergy guidance because we really do believe we will have a much tighter integrated team as we go through this year.

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**Alex Kramm**
*UBS Securities LLC*
Q

Very helpful. Thank you.

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**Jeffrey Craig Sprecher**
*Founder, Chairman & Chief Executive Officer*
A

Hopefully, year from now when we get back on, you'll have different market color about us.

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**Alex Kramm**
*UBS Securities LLC*

Q

That's the idea. Thanks.

**Jeffrey Craig Sprecher**
*Founder, Chairman & Chief Executive Officer*

A

Thank you.

**Operator**: And our next question comes from Ken Worthington of JPMorgan. Please go ahead.

**Kenneth B. Worthington**
*JPMorgan Securities LLC*

Q

Hi, good morning. I appreciate your hesitation on two of the previous questions. I'm going to try again because I think it's important. I'll try to ask the questions a little differently. Maybe how certain do you think it is that Deutsche Boerse and LSE get approval to merge or maybe do see a lot of risk or challenge to this merger?

**Jeffrey Craig Sprecher**
*Founder, Chairman & Chief Executive Officer*

A

I think at the end of the day we have no idea. So, it's an easy answer to give you. It's their challenge to demonstrate why they should be allowed to merge and we'll be a passive audience in appreciating what they do.

**Kenneth B. Worthington**
*JPMorgan Securities LLC*

Q

Okay. And then, it would seem possible that merging a futures business and an OTC clearing platform could appear threatening to your futures business. Is there any way to give us comfort that maybe that merger is not threatening like, these futures businesses are very sticky, we've seen a lot of competition come in before, it hasn't really been able to rip apart our futures business. But again, this seems a little different. Maybe why is this the same thing we've seen over and over again, and not a threat?

**Jeffrey Craig Sprecher**
*Founder, Chairman & Chief Executive Officer*

A

Sure. Well, first of all, I'd note that we've been growing our interest rate futures business in Europe. I think it was 34% year-over-year. So that's a franchise that we continue to invest in and have had great results with. We compete with other people that have already offered the solution that you just described. And so we're already competing against that kind of offering. Just stepping back, if you say how many people in the world are there that have OTC interest rate swaps that are fully or largely offset with futures contracts; in other words, that they've completely hedged out their risk. The people that do that are not end users. The people that do that are dealers, people that are offering something to one party and then immediately hedging it out so that they take out risk.

That dealer community is under pressure as you, I'm sure, know. It's been shrinking, if you look at announcements that are going on. And so, it's unclear that the paradigms of the past necessarily are going to be the paradigms of the future. And so we're trying to build out our franchise. We've launched a lot of new products to serve our customers, as we anticipate continual changes in the way that these financial businesses operate, but other than that, we're competing in that world today and we're doing really well.


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**Kenneth B. Worthington**
*JPMorgan Securities LLC*
Q

Okay. Great. Very helpful. I appreciate it.

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**Operator**: And our next question comes from Patrick O'Shaughnessy of Raymond James. Please go ahead.

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**Patrick J. O'Shaughnessy**
*Raymond James & Associates, Inc.*
Q

Hey, good morning. A couple of weeks ago the European Securities and Markets Authority talked about how they didn't see a need for a 30-month delay for the implementation of open access rules in Europe. Curious about your updated thoughts on those open access rules and how it would impact ICE?

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**Jeffrey Craig Sprecher**
*Founder, Chairman & Chief Executive Officer*
A

Sure. Well, we've been living with – the whole industry has been living with the prospect of these rules being implemented now for many, many years. So we continue to get our businesses ready to be responsive to those rules. I think the way it impacts the entire market is that there is a goal to create more competition, which to you and I means, more fragmentation of markets. We also think that it will be very, very difficult and hard and very little incentive for any third party to start a major clearing house when the existing clearing houses have open access. So in an odd way, while it's meant to stimulate competition, it at the end of the day, probably entrenches the incumbents, including ICE who has a large clearing presence in Europe.

So we continue to build out our capabilities inside that clearing house, to get ready for access. And we've continued to make sure that the ancillary services that we provide around the trading venues, where we do believe there will be fragmentation, offer a lot of capabilities to our end users. So you've seen us take on the ability to create more indices, improve our data offerings, improve the kind of consultative compliance services that we offer to our customers, we've worked hard on improving our delivery mechanisms for physical products and all those kinds of things, which will all largely become unbundled as the market fragments and create opportunities for us.

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**Patrick J. O'Shaughnessy**
*Raymond James & Associates, Inc.*
Q

Yes, that's helpful. Thank you. And then my follow-up, can you just kind of talk about the competitive dynamics right now in energy futures trading? Obviously, you have the established competitor, you have a new start up there. So what are the dynamics that you are seeing in terms of market share and order routing, particularly in the key products Brent, WTI, and natural gas?

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**Jeffrey Craig Sprecher**
*Founder, Chairman & Chief Executive Officer*
A

Sure. Well, we have best quarter in our history, so yes there is competition. But clearly, in terms of our ability to deliver financial results we're doing very, very well. We sit with record open interest in Brent as I mentioned. And so we have very high prospects for that franchise going forward.

There are always going to be entrants to this business, as I think I've mentioned in other kinds of businesses, people have this figured out ways of expanding the market, that expansion, while it benefits them, also has side benefits, oftentimes that benefit us. And I think you're seeing that in the numbers.


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As fragmented markets in my mind are bad for end users, they are very good for intermediaries. They create much more arbitrage capability that brings a new kind of arbitrageur to the market that wants the leg in all of the various different venues, which drives volume.

And so, ICE really doesn't care about market share. We really want to have people that want to value our services and pay us to provide them. And so that's the market that we focus on, which is a subset of what you're talking about, and we're doing really, really well in the market for people that want to pay for services and that's why we continue to grow.

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**Patrick J. O'Shaughnessy**
*Raymond James & Associates, Inc.*

Q

Great, thank you.

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**Operator**: And our next question comes from Chris Harris of Wells Fargo. Please go ahead.

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**Chris M. Harris**
*Wells Fargo Securities LLC*

Q

Thanks, guys. Questions on the synergies, as you guys get through 2016 and we start looking at 2017, can you remind us maybe how much more synergies are left to come out at that point and maybe qualitatively where they'll come out?

---

**Scott A. Hill**
*Chief Financial Officer*

A

Yeah. What we said on the last call was that by the end of 2018 that we would be largely through the remaining $220 million of synergies that we had to go. That was the $150 million of IDC in the $70 million of NYSE. I'll note again what I said then, which is, what is IDC and what is ICE and what is NYSE, it continues to blur. So, we're really focused on delivering on that $220 million expense reduction, again largely accomplished by the end of 2018. We had mentioned last call $75 million of that would come out this year, we increased that now to $85 million to $90 million, and so our expectation to raise there.

We announced that Ben Jackson has taken over as the Chief Commercial Officer and he and the teams have been in with IDC 24/7 over the last two or three months, once we closed the deal, and continue to make progress in identifying the specific actions to deliver the synergies this year. And they're working on building the 2017 execution plan as well. So, as we move through this year, as we get better visibility, we'll talk to about that. What I would simply conclude is, of the $220 million, by the end of 2018 we're going to get $85 million to $90 million this year and we're very confident that we will deliver on that objective over time.

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**Chris M. Harris**
*Wells Fargo Securities LLC*

Q

Okay. Very good. And then just a quick follow-up on the expenses for this year. Just wanted to confirm that in the guidance you guys haven't deferred or delayed any investment spending that you previously were guiding too?

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**Scott A. Hill**
*Chief Financial Officer*

A


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We have not. We continue to make those investments, and it's one of the reasons why we're confident in our ability to grow our data business 6% to 7% this year, because as we reduce expenses through synergies, it in no way impedes our ability to invest in future growth.

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Chris M. Harris
*Wells Fargo Securities LLC*

Q

Got you. Thank you.

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**Operator**: And our next question comes from Vincent Hung of Autonomous. Please go ahead.

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Vincent Hung
*Autonomous Research US LP*

Q

Hi. The question on the capital structure, what is the right capital structure now for the business given it's 50% recurring revenues? And shouldn't the target leverage ratio be higher than 1.5 times, in that context?

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Jeffrey Craig Sprecher
*Founder, Chairman & Chief Executive Officer*

A

That's a really good question, and we've been involved in extensive dialogues with the ratings agencies over the past few months on exactly your point, which is, the business model that ICE had and the financial structure and capital structure that ICE had when we did the NYSE deal back in 2013 versus where we sit today in 2016 is very different.

Pre-NYSE, 80% to 90% of our revenues were volume based. Post-NYSE, it was still 70% to 75%. We are now at a point where our annuity like businesses are about half our revenues, which introduces significant stability into the financial model.

You saw the very strong cash flows in the first quarter. While you can't multiply that times four because it's got our annual listings billing in it, we clearly are on track to a number that's going to be around $2 billion of operating cash flows for the year, which you'll note is significantly above where we were the prior year.

Our CapEx needs have grown slightly, and so even netting that out, our free cash flows are very significant. You saw in the quarter alone, we were able to knock three tenth of a point of leverage out in the first quarter. And so I think all of that summed up is why I mentioned in my prepared remarks that we're now comfortable once we get below 2 times leverage, which we think we can do late this year or certainly early next year, we believe that will support our overall rating. And that rating is important to us, and so we're going to do the things that are necessary to support it.

But as you mentioned, I don't think 1.5 times is that bogey anymore given what we've done. I think we could comfortably operate about 1.75 times, 1.80 times and again below 2 times I think we're back active looking at ways to return additional capital to our shareholders and we're looking forward to doing that.

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Vincent Hung
*Autonomous Research US LP*

Q

Okay and just the last question. Can you give us more clarity on the IBA and monetization of the LIBOR, [indiscernible] (46:39)?

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Jeffrey Craig Sprecher
*Founder, Chairman & Chief Executive Officer*

A

Yes, I mean, I'll update you in the financial sense in that on a year-over-year basis that business contributed well in the quarter. We had seen good growth as we moved through the back half of last year, and the first quarter results were solid as well. It is still largely around the LIBOR business, but as we continue to build out ICE swap and the gold fix and other of those products, we would expect the contributions from the business to continue to improve as we move through this year.

Vincent Hung
*Autonomous Research US LP*

Q

Thanks.

**Operator**: And our next question is from Kyle Voigt of KBW. Please go ahead.

Kyle Voigt
*Keefe, Bruyette & Woods, Inc.*

Q

Hi. Thanks for taking my question. Jeff, I just wanted to follow up on earlier question regarding the UK takeover code. So, in order for you to be able to make a bid for LSE within the next six months, you outlined four circumstances in the press release. But the release also says that you'll be able to bid with consent of the UK Panel on Takeovers and Mergers. So under what circumstance could the panel consent to this? If the LSE approached you, and was more open to share information at that point, do you believe the panel would be open to you making a bid? Or is this out of the question now that you've made this announcement today?

Jeffrey Craig Sprecher
*Founder, Chairman & Chief Executive Officer*

A

Well, I wanted to first of all point out to you that the form and substance of the way we put that release out was really a relatively standardized form and the four points that you've outlined are really available to all participants generally in any UK takeover situation.

So you shouldn't read anything into the fact that we mentioned those four in terms of trying to get in our heads on contemplating where we go from here. Those are all available to us and to anyone else in our position in other deals and we'll just have to see how life progresses, but don't read anything beyond the written words there into our actions.

Kyle Voigt
*Keefe, Bruyette & Woods, Inc.*

Q

Okay. And then just a follow-up, on the two acquisitions that you announced from S&P, can you just talk about those acquisitions, how they fit in? And then can you confirm whether you will be paying for those in cash now that you've taken yourself out of the bidding for LSE?

Jeffrey Craig Sprecher
*Founder, Chairman & Chief Executive Officer*

A

Yes, so each of those – the acquisition of the business from S&P that you noted is, I think we discussed earlier, it's right now going through an anticipated competition review. We suspect it will work its way through this year, and remain confident that we get to closing around that timing. As we get closer to the end of the year, and the close of that deal, we'll be back to you to say a little bit more about what its contributions will be to our financial


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statements and how ultimately we'll fund it. You will likely have noted when we announced the deal that we noted that we had the flexibility to pay in either cash or stock at the time of the closing, obviously which we choose will depend on when the closing happens and what else happens between now and then.

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**Kyle Voigt**
*Keefe, Bruyette & Woods, Inc.*

Q

Okay. Thanks.

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**Operator**: And our next question comes from Brian Bedell of Deutsche Bank. Please go ahead.

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

Q

Hi, thanks for taking my questions. Just to go back on the market data business in terms of the 6% to 7% growth rate guidance. Either Jeff or Scott, can you talk a little bit about sort of the more granular dynamics of that in terms of revenue synergies with the IDC products across the ICE platform, like how much is included in that assumption, and is that something that's much more of a 2017 event? And also, I'm sorry, also Trayport as well?

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**Jeffrey Craig Sprecher**
*Founder, Chairman & Chief Executive Officer*

A

Sure. Well, first of all, there are tremendous synergies across the range of businesses that we've acquired recently, and that's really what our plans call for us doing is unlocking those synergies – the revenue synergy opportunities across them. But just by way of example, we launched these new treasury indices at IDC, but we were able to develop those using a very strong team that we have at the NYSE that has very intimate relationships with large ETP and ETF providers. So we are able to very quickly have a dialogue with a unique customer base over their new product sets, their ideas and how they're going to grow that market and what capabilities we may have to support them that neither company as a standalone had on their own, and it was amazing that we were able to put that together within the first month or so of ownership and it's paying dividends.

Obviously, we announced very quickly that BlackRock was moving some large ETP products on to those indices and now our team is out working with a lot of other providers and users of indices to advance and accelerate those products. I would just make the point to that much of this data revenue that we're talking about is subscription based, which gives Scott the ability to have great confidence when he tells you that it's going to grow at 6% to 7% this year because many of those contracts are being signed or have already been signed, so we have tremendous visibility into them. Those tend to recur, so that's the nice thing about that model. So looking forward, we would hope that we're doing a good job with those customers that they will continue to re-sign with us. And meanwhile we take the products that we've developed out on the road and find new customers for them so that we can have growth on growth.

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**Scott A. Hill**
*Chief Financial Officer*

A

And just adding slightly to that and touching on the end of your question, the thing that excites me about this is the 6% to 7% this year is really based on the strong performance of the individual parts. All of the effort to come together and to integrate and work together, as Jeff talked about, we'll get some that yield in the year, but it's really that's about what's going to enable us to grow in 2017 and 2018 and beyond. So that's why we've got confidence not just in the near term where the businesses are doing well this year, but in the longer term where we think as the companies come together the opportunities for growth will only expand.

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

Q

Great. That's great color. And then maybe just switching gears a little bit to the ETF listings, in terms of some recent competition on offering, basically paying for listings, and using obviously the trading combination to make money on that. How do you feel about that, or how do you see that, or do you – I guess, do you see that as a threat to the ETF listings franchise longer term for you?

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**Jeffrey Craig Sprecher**
*Founder, Chairman & Chief Executive Officer*

A

Well, you know that kind of intense competition has been in the market for a while and you can see the results that we posted, which is we're doing phenomenally well. When you step back and look at payment for order flow, while it became accepted within the intermediary community around the equities market, giving equity kickbacks to large institutions that have very strong brands and are trying to appeal to retail customers in an era where the SEC and the labor department and others are very concerned that retail investors be given good guidance as to how their money is being handled.

It's a real reputational brand risk for somebody to step into that quagmire. It would beg the question, did somebody create a product simply to generate churn inside of it and get these equity kickbacks or was that really the best listing venue? What I will tell you is that all of us in financial services are under pressure by new regulation and also just best practices to make sure that we have no single point of failure in our businesses. And the big institutional investment firms are subject to those same kinds of reviews and pressure.

So we expect that in that ETP, ETF market that people will, for diversity purposes, list across a range of venues. But it's not really economically driven. It's really diversity driven. We have such a strong offering with 92% of AUM at NYSE and you could see with – in the face of the pressure you talked about, 82% of the AUM that was listing in the first quarter came to us. The reason that that is such a strong venue is that we have very, very deep liquidity on the exchange, the NYSE Arca exchange where we list these platforms, market makers, infrastructu res are rule set that really enables these innovative and fabulous listings to come to us and know that they have every opportunity for growth and success.

NYSE is a brand that is known around the world, and we have been pass-ported into most countries, and so the platform that we can offer somebody in terms of distribution is really unparalleled. And it's those things that are driving the listings. I don't believe that payment for order flow is going to have a material impact on this business nor should it. And I also, as you probably know, think it's a corrosive mechanism that actually ultimately hurts markets and so hopefully I'm right and we won't see that corrode these really neat, innovative ETPs that are coming out.

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

Q

Great. That's great color. Thank you very much

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**Operator**: And this concludes our question-and-answer session. I'd like to turn the conference back over to the management team for any closing remarks.

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**Jeffrey Craig Sprecher**
*Founder, Chairman & Chief Executive Officer*


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Thank you, Rocco. I appreciate your help on the call. And thank you all for joining us today. We're going to look forward to updating you on our progress as we move through the balance of the year. Have a good day.

**Operator**: And thank you, sir. This concludes today's conference. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.

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