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Intercontinental Exchange, Inc. (ICE)

Q2 2016 Earnings Call

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Founder, Chairman & Chief Executive Officer

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the ICE Second Quarter 2016 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions]

I would now like to turn the conference over to Kelly Loeffler. Ms. Loeffler, please go ahead.

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

Good morning. ICE's second quarter 2016 earnings release and presentation can be found on the Investors section at theice.com. These items will be archived, and our call will be available for replay.

Today's call may contain forward-looking statements. These statements, which we undertake no obligation to update, represent our current judgment and are subject to risks, assumptions and uncertainties. For a description of the risks that could cause our results to differ materially from those described in forward-looking statements, please refer to our Form 10-K for 2015.

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.

In the appendix of our presentation and earnings press release, you'll find a summary of our GAAP results, a reconciliation to the equivalent GAAP terms, 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.

As a reminder, unless otherwise noted, the year-over-year figures we will discuss reflect comparisons against adjusted pro forma 2015 results.

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

I'll now turn the call over to Scott.

Scott A. Hill
Chief Financial Officer

Thank you, Kelly. Good morning, everyone, and thank you for joining us today. I'll begin on slide four and highlight that the second quarter was our seventh consecutive quarter of double-digit earnings growth. Our performance was driven by revenues that grew 7% and adjusted operating expenses that declined 1% year-over-year.

We generated adjusted operating income growth of 15% and expanded adjusted operating margins by 3 points to 56%. Adjusted earnings per share grew 13% versus the prior year to $3.43 and with continued momentum in our transaction business in July, growing data revenues and lower expenses, we're well positioned in 2016 to extend our decade-long track record of double-digit earnings growth.

As you'll see, as I move to slide five, our second quarter performance contributed to strong results for the first half of 2016. We generated consolidated net revenues of $2.3 billion during the first half of the year. Both our trading and clearing segments and our data and listings segment grew 6% versus the first half of 2015. This solid top-line growth combined with disciplined expense management allowed us to expand operating margins by 5 points to 58% and to grow earnings per share 16% to $7.12.

Additionally, we generated record operating cash flow of $1.1 billion in the first half of 2016 which enabled us to pay over $200 million in dividend even as we reduced our leverage to 2.4 times just six months post the closing of our Interactive Data acquisition.

These strong financial results, enabled by our globally diverse business model, supported our board's authorization of $1 billion share repurchase program and our $0.85 per share dividend for the third quarter. We also announced plans to pursue a 5-for-1 stock split to ensure that our stock trades as efficiently as possible in a fragmented market and that it is more accessible to a broad range of shareholders.

Let's move to slide six where I'll provide some more details in our first half revenue performance. 52% of the $2.3 billion in revenue came from our data and listings segment, and 48% came from our trading and clearing segment. Each segment grew 6% year-over-year. You'll find further detail on each segment's revenue on the right side of this slide.

In the trading and clearing segment, commodities revenues grew 10% with strong contributions from both our energy and ag markets. Financials revenues grew 2% with continued strength in our equity index markets partially offset by muted European interest rate volume. Notably, volume in ICE bread, sugar, other ags, MSCI, and U.S. cash equities each grew double digits during the first half of the year.

Within our data and listings segment, pricing and analytics revenues grew 6% and exchange data revenues increased by 13% year-to-year. This strong performance was enabled by a high retention rate of existing customers, the acquisition of new customers, and the development of new and enhanced products designed to efficiently deliver more value to all of our customers.

Each of our data offerings are benefiting from customers' recognition of the increasing value of readily-available easy-to-consume information. This nascent trend reflects our customers' need to deal with the challenges of the volatile markets and uncertain political and economic environments in which they operate.

We continue to expect our full-year 2016 data revenues to grow between 6% and 7% on a pro forma basis despite the recent significant decline in the pound sterling, in which roughly 9% of our total data revenues are billed.

Further, though we expected currency impact to cause a sequential decline in revenues of $6 million in third quarter, we believe fourth quarter data revenues could approach $500 million even at current spot rates.

Finally, listings revenues grew 3% over the prior first half and we hosted some notable IPOs as activity picked up late in the second quarter.

Going forward, we're confident that our unique market model and strong issuer services will continue to support the capital raising needs of the world's most innovate companies and exchange traded product issuers.

Please turn to slide seven where I'll discuss our disciplined expense management and provide updated and improved guidance. First half adjusted operating expenses declined 4% year-over-year to $970 million and pro forma operating margin expanded by 5 points. As we continue to integrate our acquisitions and streamline our operations, we are realizing Interactive Data synergies sooner than expected. The majority of our corporate functions are well along the path to integration. Our technology and operations teams have built clear integration roadmaps. And perhaps most importantly, the ICE Data sales team is now fully integrated and well-positioned to better serve our customers with a complete range of data solutions.

Given our solid execution, we now expect to realize roughly $50 million in synergies from Interactive Data this year and approximately $100 million in combined expense synergies during 2016. Accordingly, we now expect our full-year adjusted expenses to be in a range between $1.94 billion and $1.97 billion including adjusted expenses in the range of $485 million to $495 million in the third quarter. This updated and improved full-year guidance reflects the $60 million improvement from our guidance at the beginning of the year. This improvement consists of an additional $25 million in synergies and roughly $35 million largely related to the currency impact of the lower pound.

We run a diverse global business that is subject to currency fluctuations. Given the size of the change in the pound related to the Brexit vote, I want to take a brief moment to give you some color on how you should think about this in the context of our second half financial performance.

With roughly 11% of our total revenues and 15% of our consolidated expenses denominated in pounds, we have a natural hedge that mitigates a meaningful portion of the impact to profit. Therefore, even though the currency driven decline in revenue exceeds the expense reduction on a dollar basis, we expect the net impact to earnings to be immaterial and it will not impede our ability to extend our track record of delivering double-digit earnings growth to 11 years.

I'll conclude my prepared remarks on slide eight with a review of our cash generation, leverage and capital return. We generated record operating cash flows of $1.1 billion in the first half of the year and deployed that cash to invest around $150 million in CapEx to reduce our debt by nearly $800 million and to return over $200 million to shareholders through dividends.

We reduced our leverage from 2.8 times at the end of 2015 to 2.4 times at the end of June. We believe that by the end of this year or early next, we can reduce our leverage to a level that will continue to support our strong investment-grade rating even as we increase our capital return and consider other strategic investments. This solid cash generation and rapid deleveraging supports our board's authorization of a new $1 billion stock buyback program and our ability to grow our cash dividend as we grow.

Our record first-half results reflect our commitment to serving customers and generating strong returns for our investors. We are expanding and improving the products we offer in the markets we serve. We are growing revenues, earnings and cash flows. We are reducing expenses, debt and leverage, and we have invested strategically to build a diverse business model that we believe will allow us to continue to deliver consistent earnings growth, solid cash generation and leading returns on investments.

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

Jeffrey Craig Sprecher

Founder, Chairman & Chief Executive Officer

Thank you, Scott, and good morning to everyone on the call. I'll provide an update on our strategy that's delivering the strong growth that we've detailed this morning, and then we'll conduct a question-and-answer session.

On slide nine of the results of our strategic approach to transforming our company into a global financial services leader, since our IPO in November of 2005, we've grown EPS five-fold, and we've grown our share price ten-fold by building on the changing needs of our customers.

Rather than simply retracing the past to seek growth, we've been future-focused on the intersection of financial services and technology to offer more services to our expanding base of customers. We began as an energy trading platform and strategically transformed the company to become a global operator of exchanges and clearing houses, and become a top-tier provider of proprietary data solutions.

This successful evolution of our business occurred despite the financial crisis, evolving regulations, tumultuous global markets and economic cycles. We stayed focus amid these dynamic times on innovating to solve our customers' challenges, bringing solutions long before they were widely appreciated by the market.

This very point is highlighted on slide 10, where you could see the virtuous cycle created by our global ecosystem of exchanges, clearing houses, information and connectivity, which is an unparalleled model relative to more specialized data providers and market operators.

Data and trading are symbiotic and serve as integral inputs into our customers' workflow. For many customers, access to our data drives more trading, which in turn creates the information used for investing, for settlement, compliance, collateral management, reporting and numerous other functions, all of which drive the rising consumption of data.

The services listed on this slide represents solutions across a vast range of our clients' workflow. And because these services are part of an integrated offering, they create a strong value proposition. For example, our markets are widely accessible via the ICE Desktop, Mobile and Messenger applications, which we offer integrated solutions for our customers' trading, information and risk management needs on a common technology platform.

We also offer vast sets of proprietary data for non-exchange-traded fixed income markets, which represent some of the world's largest addressable markets. Today, we're pricing millions of bonds for thousands of customers each day, and within the fixed income markets, invested assets under management continue to rise. For example, exchange traded fixed income funds have quickly risen to over $585 billion, now accounting for 20% of total U.S. ETP assets under management. ICE also has an expanding set of solution to serve active fixed income managers such as pricing and reference data, continuous evaluated prices, liquidity indicators and best execution identification.

The role of these new services is highlighted around the times of market volatility and the Brexit vote was an example of an event that has reinforced the importance of real-time information tools. In addition, ongoing demand is being driven by regulation, by market fragmentation, volatility and the uncertainty around global Central Bank actions.

You can see on slide 11 that our approach to driving change has produced consistent top-line growth with record annual earnings for the last decade regardless of the economy or the market cycle or commodity prices or the level of interest rate or increasing regulation or the many other headlines and headwinds that have occurred over the last 10 years.

It is such market and economic disruptions that make our risk management services valuable and ICE's performance relative to the broader sector over the same time validates the model that we built to benefit from change.

In that context, I'll say a few words about Brexit, which we view as another opportunity to drive our set of differentiated solutions. We've dedicated meaningful resources to our London operations and for good reasons. The United Kingdom has tremendous location and time zone advantages in global markets. It has a strong set of regulatory and legal frameworks that have promoted confidence. And ICE has a highly qualified team of colleagues that has, time and time again contributed to our successful navigation of change.

Since the Brexit vote, we've had an active dialogue with senior officials in the UK government to discuss the types of policies that will facilitate our continued investment. We're looking forward to this ongoing dialogue, and we're very optimistic about the government's focus on preserving a competitive climate for business.

ICE also operates exchanges and clearing houses in the U.S., Canada, Singapore and in Continental Europe. Our decision to be globally diverse is a result of customer demand to have choices for important markets in local jurisdictions. We've been open and transparent about our views that there will be continued fragmentation and balkanization of markets as they've become more electronic and more locally regulated. These trends and unpredictable events like the Brexit referendum and Central Bank moves remind the market of the value of having different data sets readily available and we believe that these factors increase the need for our proprietary data and the relevance for our globally distributed model.

Moving now to slide 12. I'll review the solid performance in our global markets. The strength of our markets is demonstrated by the fact that trading and clearing revenues for 12 of our 13 key markets grew year-to-year in the second quarter. As you can see on the slide, volume in open interest in our crude, agriculture, sterling, and MSCI products is strong and growing.

Another benefit of operating diverse global markets is the ability to gain both exposure and diversification. For example, while European interest rates, which made up 4% of our total revenues, was the one asset class where transaction revenues declined year-to-year in the second quarter, we earned market data revenues from that business. And, importantly, trading and clearing volumes, again, grew by double digits in June and July.

Moving to slide 13. I'll note the 14% revenue growth in our cash equities markets year-to-date which produced strong U.S. cash flow and enables us to serve one of the largest global securities markets with data and listings. We've continued to improve and enhance this market over the last two and a half years since our acquisition, while growing revenues and expanding market share at the same time.

On the right side of the slide, you can see the ongoing contribution of credit derivatives clearing in both Europe and the U.S. We've seen greater regulatory certainty in the U.S. draw more CDS clearing to the U.S. and away from Europe with record-level participation from the buy side. I'll note that we're approaching the milestone of $100 trillion in notional value cleared by ICE. Through a great deal of innovation, we now clear nearly 600 credit derivative instruments driving $53 million in revenue in the first half.

Last week, we announced our agreement to sell the U.S. voice brokerage asset of Creditex to Tullett Prebon, which represents approximately 10% of our global CDS revenues. ICE is not selling the valuable electronic post-trade assets of Creditex that helped us support the launch and are a continuing contributor to our ongoing operations in CDS clearing. We're also retaining Creditex's electronic trading assets, as we continue to build on our solutions for the credit markets.

As we announced yesterday, we've seen early traction in our new single-name CDS electronic trading platform called ICE Swap that we launched in June. This is an all-to-all platform for single-name CDS, which has gotten the attention of major dealers and buy-side clients, who are asking for more liquidity and transparency in these markets. So, we've been very strategic with the acquisition of Creditex by leveraging it to create a group of assets that have generated a positive return on that original investment and which continue to contribute to our earnings.

Turning to slide 14. I'm pleased to say that not only is the integration of Interactive Data running ahead of schedule, but more importantly we're well on track to achieve our 2016 revenue growth targets. In June, we announced the reorganization of all of our data businesses into ICE Data Services, which brings together our analytics, desktops, mobile apps, indices, exchange data, and connectivity solutions under a global data brand to serve our customers comprehensively.

While there remains much integration work yet to be done, the early feedback from our customers is that we're on the right track. Our ICE U.S. Treasury Index family has grown with new indices and new customers. They've been selected as the new benchmarks for a range of ETPs now offered by BlackRock iShares, the leading provider of fixed income ETPs; Direxion, a provider of ETPs with over $10 billion in assets under management; and Yuanta Securities Investment Trust Company, a comprehensive financial services firm serving the Asia Pacific region and Invesco PowerShares recently filed to begin using ICE indices in ETP products.

Our revenue mix from transactions-based revenues towards more recurring subscription-based revenues continues to grow as the evolution of the market continues to transfer value to these mission-critical offerings. With a high revenue renewal rate in our pricing and analytics business, we become a key source for consistent reliable pricing and reference data.

We're often asked if the growth of our data business is levered to the head count at the banks. It is not. First and most evidently, our data revenues have grown during and since the financial crisis. While head count in parts of the financial services industry may have declined since that time, the need for information, connectivity and risk management from ICE has risen, consistent with our data revenues. The consumption of data is rising due to secular trends such as the move to indexation, the rise of ETPs, market fragmentation, independent valuation demand, regulatory reporting, real-time distribution needs and automated trading. The sheer breadth of our services and our positioning at the value-added end of the data spectrum gives us confidence in our growth projections.

Turning to our listings business. The market for initial public offerings improved once the volatility of the first quarter abated. The New York Stock Exchange continues to lead in global proceeds rate, including hosting the five largest IPOs by market cap to-date in 2016. Those are LINE Corporation, China Online Education, U.S. Foods, MGM Growth and Patheon. NYSE also was the home for the two largest technology IPOs year-to-date, LINE and Twilio. NYSE Arca continues to lead in new ETP listings and hosts 92% of assets under management. We're working closely with issuers to develop more solutions and value-added services in addition to enhance the market quality.

Importantly, the listings business also drives growth across our trading and data lines. You can see that even as we deliver on our synergies, the NYSE is a growth-oriented business for us, and we're proud of the work that our team has done to strengthen and grow this valuable business.

I'll conclude my remarks on slide 15, where you can see we are very well positioned to build on our decade-long track record. Our strong start for the year was driven by revenue growth, faster synergy realization, margin expansion, and 19% as-reported adjusted earnings growth in the first half of this year. We also generated over $1 billion in cash flow, repaid nearly $800 million in debt, demonstrated our commitment to capital return with a $1 billion share repurchase authorization, and announced a planned stock split.

So, I'd like to thank our customers for their business, and I want to thank our team for their continued hard work.

And with that, I'll now turn the call over to our operator, Keith, who'll be glad to take your questions.

QUESTION AND ANSWER SECTION

Operator: Yes. Thank you. We will now begin the question-and-answer session. [Operator Instructions] And the first question comes from Ken Worthington with JPMorgan.

Kenneth B. Worthington
JPMorgan Securities LLC

Q

Hi. Good morning. Thanks for taking my questions. First, you had really quite good growth on the exchange data side. Can you talk about why this growth is occurring now? If you look at the numbers sort of last year at this time was essentially flat for all four quarters, but you've seen really huge growth for each of the last two quarters. What's going on?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

Thanks, Ken. This is Jeff. Well, it's interesting because I've tried to make the point on multiple calls now that we believe that the markets are going to become more fragmented, now that they're more electronic and more – regulation is being put on markets at the local level. And in some of our core markets, what you've seen is some people come in and pay for order flow. And so, what we've done is readjusted essentially our data offering and the way we disseminated and charge for it so that we can benefit from those payments into the market.

So, when somebody pays for order flow, you attract a new kind of trader; and you, actually in our mind, grow the market by bringing people in that want to receive those payments. And those people tend to hang on the primary market in order to receive those payments. And so, what we do is basically have a compact with them that they will receive those payments and pass some of them back to us in the form of increased data revenues. When a company goes in and wants to get paid for order flow, it tends to do one of two things. It either uses algorithms or its own trading style to basically churn so that it is constantly buying and selling but accepting no risk, or they come up with strategies where you can put on positions that actually show up in open interest but they carry no risk.

And so, there have been a lot of talk in our industry about market share. People like to talk about market share. And we like to talk about earnings. And that's why I always start my recent presentations showing you our earnings growth because we have decided that the way to maximize our earnings growth is to participate in that trend with our customers who want to receive payments from others. And so, there's been a big spike-up in that area, and I expect honestly that this is a macro trend that we're going to see more fragmentation due to a number of factors and that you'll continue to see growth in our core data offering.

Kenneth B. Worthington
JPMorgan Securities LLC

Q

Great. That's awesome. Just maybe on a completely separate note, I just had sort of a long-term aspiration of building a swaps-clearing operation for interest rate products. I guess, do you still have those hopes or expectations of getting into that business? Could Brexit actually help you crack that market? And I guess maybe it's been a couple of years since New York, is it still possible to build this operation or if you still want to get in there, is acquisition the only realistic way to do it?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

It's a good question and a difficult nut to crack in the sense that we do continue to build out continued capabilities in risk management to serve fixed income and interest rate markets, and that is – that has been a constant source of investment for us, as you've indicated, over a number of years. Whether or not we actually would enter that space on our own is yet to be determined. There is some M&A going on right now, the LSE-DB deal. It's hard to understand what kind of offering that deal will have, given the fact that they're now in two different regulatory jurisdictions. It's hard to understand what the complexities of regulation may be between the UK and the EU. So, that may open an opportunity or it may foreclose an opportunity. It depends on how things play out.

I would also mention to you that the interest rate swaps business in our mind is largely people doing fix-for-floating swaps. In other words, commercial borrowers, like ICE and Scott Hill, who is sitting across from me, may choose to lock in floating interest rates for a period generally five years or so. But in this low interest rate environment, it's hard to imagine that locking in low interest rates is a growth market.

And so, one of the things that we promise is earnings growth and we tend to look for trends where we can position ourselves early to be part of the growth, and it's very unclear whether the interest rate swaps market is one of those markets. So, I say all of that in the sense that we've not made a decision yet on what to do and when to do it, but we do continue to build out capabilities so that we have optionality around that decision.

Kenneth B. Worthington
JPMorgan Securities LLC

Q

Awesome. Thank you very much.

Operator: Thank you. And the next question comes from Rich Repetto with Sandler O'Neill.

Richard Henry Repetto
Sandler O'Neill & Partners LP

Q

Yeah. Good morning, Jeff. Good morning, Scott. Congrats on a very strong quarter. I guess I want to follow up on the first question, the exchange – the increase in the exchange market bid. I don't think I understand the answer. And I guess, to clarify, are there any offsetting expenses to the increase in exchange data? Or, I guess, could we just try another [ph] run at (30:02) because I'm not sure what you're talking about when – is it the rebate that you're paying or someone else is paying?

Scott A. Hill
Chief Financial Officer

A

Yeah. So, Rich, let me comment – put a couple of metrics around what Jeff said. I mean, effectively, what he said is there are more people who are more active in the markets that we provide and we've seen that in user growth. We've seen it in the products that we've been able to package up in our data. So, the interest levels have continued to grow. And as we sign up more users, as we're able to offer more information in various forms or various packages of information, we've seen fee increases related to that. And so, that's really help drive the revenue.

To some extent, when you look at our commodities growth in the first half at 10%, that's across the energy and ags, and there's a lot of volatility in those markets, a lot of drivers that are – and there are different drivers. It's weather in Brazil, its Middle East and U.S. oil issues that are driving oil. And as you're trying to figure out what's going on [ph] that evolve (31:15) the world, you need data and you need information. And so, as people see that need, as Jeff was describing it, we see user growth, and we see existing users wanting more information, and all of that's contributed to very strong growth in that business. And the thing that excites me about it is not just the data revenue growth in and of itself, but that data growth coupled with very strong open interest in our commodities business is a good leading indicator, not necessarily for any given month or quarter, but as we look forward, it says the interest in the markets we're serving remains very high with importantly the commercial customers who are actually taking a view on price and actively managing the risk.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

And, Rich, let me just be more obvious. If you stand on a corner and hand out $5 bills, a long line will form. If in order to get into that line, you have to pay the primary market $1 so that you can get 4 of those dollars; that is a good trade. And so, what we do is set up to make sure that our shareholders get the transfer of that $1 from the other person's shareholder.

And much of what we've been doing over the last few years and the way we've been building out this data offering and distribution vehicle is set up for that. We firmly believe that markets are going to become more fragmented. It's very different today when there used to be open outcry floors in regional jurisdictions with the name of the city on them, it was very hard to compete. Today, there are a lot of very sophisticated electronic platform operators that can simply pay for order flows and start a market. And so, we believe that there will be fragmentation. We've seen it in the most fragmented markets that we operated in, in the U.S. cash equities market. But what changes there is that as those payments are made, there's an opportunity to participate in them and that's really what we've been doing.

So, we laugh a little bit around here when people put notes out talking about market share and fail to realize that behind that the market has actually grown, and there's more wealth transfer going on and our goal is to maximize the value of this company for our shareholders.

Richard Henry Repetto
Sandler O'Neill & Partners LP

Q

Just one follow-up on this, like take for example, the fragmentation in the energy markets with a new entrant, is that somewhere – where you're not necessarily paying the rebate, but you are benefiting potentially because on exchange energy market data because you are still the significant player that has all the data. Is that a fair representation?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

Yeah. I think as you go away and look at the numbers that we just put out, you're going to see that we beat on revenue and on earnings largely because we have been able to monetize our historical data to new entrants that want to participate in those payment [ph] floor closed (34:25) schemes. What we have not done is actually go into that market and expand the market further again by paying more people for order flow. We've kept our basic core operation, and then decided to work with these new entrants. And we know who they are. We have sales people, there's constant conversation. There are people that approach us that want those payments. And so our strategy has been we can't stop what others do, but let's make sure that we participate and maximize our own footprint.

Richard Henry Repetto
Sandler O'Neill & Partners LP

Q

Got it, got it. And one quick follow-up, I think there's going to a very short answer here. With Brexit, has it changed your view of the Deutsche Boerse-LSE merger? How do you think about that? At least the view we are getting is the probability of a deal has gone down directionally. I don't know what the actual numbers are, but directionally. Has that changed your view on potentially looking at that transaction?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

That's a short question, but it's probably a long answer. The – when we...

Richard Henry Repetto
Sandler O'Neill & Partners LP

Q

I could pass it.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

No, no, I'll answer. When we look at that transaction and decided that we were not going to go forward, we were very open to say that we have some concerns that we didn't have enough information to put a credible bid on the table. What I didn't say at the time that I can say now is that at the time, we did not want to talk about Brexit, and we had been urged by others not to talk about Brexit.

But the way that deal was lining up, it was orchestrated so that we were going to, if we enter the deal, have to put a number on the table, right ahead of the Brexit vote. We happened to have at the time, three UK directors who sat on our board who are incredibly knowledgeable people that are very engaged with us. And they were cautioning management and the rest of the board that the Brexit vote was going to be close and they cautioned us back in February and March. And really said, you guys need to know exactly what you're doing and you need to run scenarios on what's going to happen in either eventuality. So, we went out and we started talking to our UK colleagues to try to gauge where we thought the vote was going to come out. And honestly, we came to the opinion that the UK was probably going to leave. And so, we decided – given that we didn't have good information and given that we thought the landscape was going to change that it was not an appropriate time for us to do a transaction.

I will tell you that so – and I think we were fortunate in making that decision. I don't know what the European landscape is going to be. We have been building our company to have a lot of options and we've been very open about that. We've been very transparent that we, long ago, decided to build a footprint on the Continental Europe with an exchange and clearing house because we felt that there could be some fragmentation and balkanization that our customers would have demands. So, we're set up for a change, but I don't know what the change is going to be. And, so it's hard, for anyone in any position in financial services to discuss what the outcome of Europe is going to look like.

Richard Henry Repetto
Sandler O'Neill & Partners LP

Q

Understood. That's very helpful. Thank you.

Operator: Thank you. And, the next question comes from Michael Carrier with Bank of America Merrill Lynch.

Michael Roger Carrier
Bank of America Merrill Lynch

Q

Thanks, guys. Scott, maybe just on the capital front just given the pace that you've been moving on paying down debt and then the buyback authorization, just wanted to get maybe an update on where the target is that you want to get to be comfortable, particularly, with the rating agencies. And then just timing, particularly, when we're thinking about 2017 pursuing the buybacks versus obviously just other opportunities that you guys have been busy on in terms of newer acquisitions and investing in the business?

Scott A. Hill
Chief Financial Officer

A

Yes. Michael, I'll give you a shot at the answer, and if I miss anything, you just have to follow up. So, I said on the last call that our objective is to operate with leverage somewhere in the 1.75 times to 2.0 times range and that's still the case. We've had very open dialogue with the ratings agencies, and they've indicated a comfort level with our current rating in that range.

I don't think that means we have to necessarily be in that range to start the repurchases, but we certainly need to have a path to get to that range quickly as we introduce the repurchases. And so, in terms of timing, the other thing I'd say, there's always a number of variables. You asked about M&A in 2017. I have no idea what that could look like. We've got the S&P deal that we expect will close later this year. You got the Cetip BM&F deal that is working its way through the process. So, there's any number of factors that could impact the timing and the size of the repurchases. I think what the authorization tells you is we are deleveraging at a faster rate than we anticipated. We had originally said we wouldn't be there until the end of next year. Now, we're saying possibly by the end of this year.

And so, look I don't think it's out of the question that we're back in the market in the fourth quarter, but there'll be a number of variables that impact that. And, I wouldn't expect this to go from 0 to 100 miles an hour in the first quarter that we start to buy back shares.

Michael Roger Carrier
Bank of America Merrill Lynch

Q

Got it. Makes sense. And then this is a follow-up. Just on the data business. So, you guys are spending a decent amount of time on the exchange new data, I guess just looking at the pricing analytics and the desktop connectivity, you both mentioned some of the drivers of the overall 6% to 7% growth in terms of the retention of clients, the new clients signing up, some of the new products out there. I don't know if you have any stats, but just trying to get a sense on when you look at kind of the momentum that you're seeing in that business based on the growth rate that you put out for 2016, what's the longer term growth potential? Again, mostly focused on the other two segments just given that you get a lot of color on the exchange side.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

Well, we've only owned the business, the Interactive Data business, for six months and we've only really been reorganized for a few weeks in terms of how our sales force is starting to take our combined product offering to market. But the early returns are really good. We see a lot of interest by large buy-side firms, for example, who want to have vendors that they can trust, who have a breadth of data, who meet their cyber security demands and give them sort of a single point to go to.

Right now, honestly, if you just step back and think about the world and your own behavior, the amount of data that we're all consuming just goes up. I mean, I have no doubt that the data plan that I have on my smartphone is going to consume more data in five years than it does today. And in every aspect of our lives and certainly here at ICE, the way we run our business, there is just more data available. And we have better and better tools to use that data and analyze that data.

When it comes to trading and risk management, there's no question that we're going to have more passive investment vehicles. Those are doing well and growing and growing quickly. There's no question that decisions are going to be made increasingly by algorithms or they're going to contribute to the decision-making process. And in my mind – and there's no question that regulators are going to demand – and, frankly, board of directors and the audit committee and auditors are going to demand better information faster than they've gotten it before.

And so, all those trends just suggest to us that there is an incredible future demand for information. And what we are trying to do is figure out areas where we really generate some unique proprietary content that will be of high value to our customers. And so, that's been our focus. And so far, the early returns have been really good. And frankly, on some of the sales meetings that I've been in, we've gotten a lot of positive feedback that it's nice to have a large-scale vendor of information to people that is very technology-focused and cyber security focused like we are to fit into their current demands for information.

Michael Roger Carrier
Bank of America Merrill Lynch

Q

Okay. Thanks a lot.

Operator: Thank you. And the next question comes from Dan Fannon with Jefferies.

Daniel Thomas Fannon
Jefferies LLC

Q

Thanks. I guess, just following up on kind of the IDC outlook, just curious if there's been any implementation of price increases thus far and kind of the outlook for that in terms of your guidance for this year and maybe into next with regards to just the pricing side?

Scott A. Hill
Chief Financial Officer

A

Yeah. Dan, I'd go back to what Jeff said. We only own the business six or seven months. I think the success we're seeing right now is really, again, around the continued high retention of existing customers. Jeff's point about – as we talk to customers, their interest in having a data provider. And so, it's – the post that's showing up as SuperD or as ICE or as IDC, we're showing up as ICE Data Services. And I think we're seeing benefit from that in terms of securing new customers.

And again, as I said on the exchange data side, similarly, in the pricing and valuation side, I think it's customers who are purchasing more. It's beginning to gain traction in new products, continuous value of the pricing product that allows you during the day to get a view on the price of bonds that you may be interested in trading or that you hold in your portfolio, that's execution services.

So, it's really more, right now, new customers, retention of existing customers, building on new product development that actually started before we purchased IDC. I think to Jeff point, we've only really reorganized the sales team and the go-to-market in the past few weeks. So, I think that's why I'm confident about our ability to grow the rest of this year. And in the next year, as we do look at are we capturing the right value in our pricings, are there different ways we can package up across the various businesses that we've owned, are there better ways that we can deliver the information more efficiently across a single desktop versus multiple, et cetera. So, that's really the benefit I think that's in front of us, not that's reflected in the strong performance we've had in the first half.

Daniel Thomas Fannon
Jefferies LLC Q

That's helpful. I guess, in response to most of these questions, the phrase new customers has come up a lot. I guess, can you give us some a little bit more context as to the segmentation of that or geography commercial versus financial, high frequency verse sell-side, buy-side? A little bit of context there would be helpful I think.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer A

I think one of the things that IDC has done for us is that it brought to us a dedicated sales force that had, to use an old term, a Rolodex, and really is very much centered on buy-side and as well as asset managers and intermediaries to asset managers. We're providing execution or regulatory services or custodial services. But that area was not an area that traditionally ICE had direct relationships with. And so, the reason that we're excited about some of the bundling and packaging and the reorganization of our sales force is that it opens a whole new customer base to us.

And what we have found, as I mentioned before, is that customer base who often times deals with lots of data vendors, appreciates having another large comprehensive offering so that it can be kind of a one-stop shop when it comes to purchasing and security issues.

Some of these things that we're providing are mission-critical services to companies that use them for regulatory purposes or reporting purposes, and so they need primaries, backups and others. They want as much information as they can. And having another large vendor enter the space has been very well received.

Daniel Thomas Fannon
Jefferies LLC Q

Great. Thank you.

Operator: Thank you. And the next question comes from Kenneth Hill with Barclays.

Kenneth Hill
Barclays Capital, Inc. Q

Hey. Good morning, guys.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer A

Good morning.

Scott A. Hill
Chief Financial Officer A

Good morning.

Kenneth Hill
Barclays Capital, Inc.

Q

I was wondering if you could talk a little bit about maybe the deal appetite in the data space. I mean, you've talked a little bit on this call about how you're reorganizing the sales team and the packaging, but are there still issues you're hearing from customers or maybe perceived gaps in your data offering where you think maybe an acquisition might fit nicely. I know you guys have been rumored out there with the Citi Yield Book and then also had done something with Mortgage Electronic Registration System? So, just wanted to get your broader thoughts there?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

I think if you step back and look at what is ICE's position in the market, we're not a reseller of other people's data. We're really – people are creating proprietary content. And so, areas that are of interest to us is where are things, where there is some content that we could help monetize through our channel. That being said, as you probably know, we operate here and in M&As -we buy versus build on every decision we make as a buy versus build decision. And many of the valuations in the data space are quite high and they certainly wouldn't operate on our return on invested capital thresholds that we operate under. So, it's not as easy as saying, yeah, we're just going to go hoover up everything that's out there because there are some great companies but they are fully valued by the market right now.

So, we have to be somewhat creative. I'll just quickly mention MERS. I got – years and years ago, many people on this call would ask us what is our strategy in the interest rate space. And, we knew that there were some dominant and important people in that space, and it would be hard to compete. And so we started breaking down the interest rate market and trying to think of where are the opportunities that we could enter the market and we started to focus on the mortgage space and this was before the financial crisis. And a very gracious gentlemen, [ph] Bill Krueger (50:15), who was a banker at JPMorgan said, well, I can introduce you to the people at MERS. MERS is an industry consortium of 5,000 members in the mortgage community including everybody that matters in the mortgage community. And we started to talk to MERS prior to the financial crisis about whether or not there would be an opportunity to privatize it.

The financial crisis intervened. MERS was involved in effectively robo-signing mortgages on behalf of lenders and got very embroiled and was put into conservatorship along with Fannie and Freddie. It has now made its way through that and it's ready to have continued investment. A new look – a new outlook and we were able to convince the members that that consortium should privatize with ICE and that we will help bring them together.

About five years ago, we never announced, but we did buy a mortgage platform and a team in Silicon Valley that was working on some advanced techniques around mortgages. We've continued to quietly build that out and obviously worked with MERS over the last few years on how we could put these systems together and are thrilled to announce that we're going to work with the MERS team, that Fannie and Freddie and some of the bank interests are going to stay on the board of the company to help us. And that we think there's a really interesting opportunity to bring some evolution to the broad market for residential mortgages in the United States.

Small deal in terms of how it exists today, but it could have large repercussions if we all get together and work on this successfully. So, it's great to see a long, long cycle actually close. And they feel it's been a long, long cycle as well.

Kenneth Hill
Barclays Capital, Inc.

Q

Great. Appreciate the background there. Just wanted to change topics and talk a little bit globally. I mean, we've talked a lot about Europe and you guys also have a presence in Asia. I'm wondering if you can give update on Singapore Merc and may be how that's progressing? And if the outlook shifted there at all given what's going on in Europe from a customer perspective?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

It's interesting. So, the footprint that we have in Asia, what we're really trying to do out of that operation is to attract a customer that we would not have seen before. We benefited, as I mentioned in my prepared remarks, from being in London, in that many Asian interests were happy to come meet us in London and do business in London. And I really do believe based on conversations we've had with the UK government that the government has incredibly strong interest in adopting policies that will continue to attract Asian business to come to London.

But that being said, there are a lot of smaller players, niche players that existed in the region that were not going to come to London. And the real key that we've had in Singapore is getting to those new customers, getting them to join the exchange, getting them to set up in the clearing house. These are brokers, these are commodity merchants and others across the broad region of Asia, and we've had good success there.

And really, if you look at our focus, it's not on day-to-day volume. It's on chipping away at a targeted customer list and getting them through the process that the MAS, the regulator in Singapore, requires to be passported into a Singapore exchange and clearing house. And that work is ongoing and it's going well, and every day – it is a network effect. So every day that somebody new joins or takes interest, it spills over to the next person. And so, we feel like we're making very good progress there.

Kenneth Hill
Barclays Capital, Inc.

Q

Okay. Thanks for taking my questions.

Operator: Thank you. And the next question comes from Alex Blostein with Goldman Sachs.

Alexander Blostein
Goldman Sachs & Co.

Q

Great. Thanks. Good morning, guys.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

Good morning.

Alexander Blostein
Goldman Sachs & Co.

Q

Question around the fixed income ETF business, it seems like it's been a pretty robust growth in the market space this year. And I think we would argue there's a lot of secular opportunities for that market space to grow further. Can you talk to us a little bit about the opportunity for ICE to monetize this trend? It seems like you could really come on a couple of – across a couple of different areas on the listing side, trading side, and maybe the data side. So, help us understand, I guess, how meaningful a trend that could be for you, guys? And then, secondly, maybe we can hit on the competitive landscape for ETF listings as well?

Jeffrey Craig Sprecher A
Founder, Chairman & Chief Executive Officer

Sure. Well, first of all, when we talk to sponsors of ETFs in that community, they are incredibly bullish on the demand for fixed income ETFs. It is a real growth area. And so, there's tremendous interest by sponsors in that arena to talk to us about what we can do.

We have a unique ability in that we had an ETP listings team of very good and well-known ETP listings team at the NYSE, which we were able to combine with our index and data people and put together essentially packages that we can take to these ETP providers where we can develop an index or replace an index. We can provide the data. We have the systems internally to do real-time calculation and NAV calculations. We can list it. We can help them market it, we can use the ICE brand, we can use the NYSE brand. So, we bring a lot of assets to the table with these providers, and we're aggressive and we're interested in this space. And so, we're able to move quickly. So, I think it's going to be a growth area for us.

In terms of how it's monetized, we don't really care in the package whether it's monetizing the data or monetizing the index or monetizing the infrastructure, all of that can go together in a call that can be very value-enhancing for these ETP providers.

There's no question that it is a competitive space, and that people there are interested in speed-to-market and they're interested in low administrative costs. And so, once we get those ETPs up then we continue to market the fact that we have continuous evaluated pricing, that we have these liquidity indicators that – and honestly, we – then we go to the active fund managers and talk to them about how are they going to respond to this passive trend and what can we do for them.

So, it's a really unique moment in time, and we're kind of hitting a sweet spot in the space in our mind with an opportunity set and capabilities set that we have. So – I'm sorry, what was the second...?

Alexander Blostein Q
Goldman Sachs & Co.

Got it.

Jeffrey Craig Sprecher A
Founder, Chairman & Chief Executive Officer

...second part of your question was...

Alexander Blostein Q
Goldman Sachs & Co.

Well...

Scott A. Hill A
Chief Financial Officer

I think the second part was really around the competitive environment. I think the point there is, if you look at assets under management in that space, we've got 92% that are listed at the New York Stock Exchange. And so, as Jeff alluded to, we've got the experience, we've got a highly qualified team and we've got a history of being the place where ETPs come to list.

And so, from a competitive standpoint, it's a good place to build from. We certainly don't take it for granted, and that's why as Jeff said, we're constantly developing additional capabilities to bring to customers. But we like the competitive position we have today. It's a good starting point and a good place to build from.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

Yeah. None of what I just suggested there that we can offer those ETP provider says, hey, we're going to pay for order flow or some other economic deal. This is really about how can we partner and create value together with each other. We – NYSE Arca is where 92% of the AUM exists. That is a single exchange. It has very deep liquidity and a single exchange. We have other competitors that like to add together three or four exchanges and then show a number, but the ETP sponsors don't really care about the volume across the bunch of fragmented markets. They want to know is there depth of liquidity in the market where this thing is primarily going to trade. That is a real competitive advantage that we have. And then, when we couple that with all the other services that we can provide that are value-added, we've done – we've seen that we continue to do very well.

I would mention there's something like four ETP, new ETP listings per day. So, the vast majority, unfortunately, like any new business are probably not going to grow very big or amount to much. They become highly differentiated and specialized in many cases. But this broad area that you started your questioning of bond ETF is one where there is tremendous demand, it seems, by wealth managers and investors who see the convenience of not having to deal with individual bond securities [indiscernible] (01:00:05).

Alexander Blostein
Goldman Sachs & Co.

Q

Got it. Thanks. Thanks for the detailed answer.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

Thank you.

Operator: Okay. Thank you. And the next question comes from Alex Kramm with UBS.

Alex Kramm
UBS Securities LLC

Q

Hey. Good morning.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

Good morning, Alex.

Alex Kramm
UBS Securities LLC

Q

I guess, for Scott. On the – you talked about the synergies obviously in 2016 and nice update there. Can you give us some early thoughts, how that, what you said today, impact 2017 and 2018? Is this just a pull forward? Do you think maybe you guys – everything done in 2017 and nothing bleeds to 2018 or do you actually feel confident that you could actually upsize synergies down the line after what you've seen or done so far this year?

Scott A. Hill
Chief Financial Officer

A

Yeah. Look, Alex, I think what you're seeing as we go through this year is that opposed to the NYSE where we announced that deal in 2012 and then had a year before it closed and a year to work on the integration plans and the synergies and so, when we came out with a number on that at close we were like this is the number. And, then we subsequently executed on it really well.

The IDC deal was a completely different deal. It was an auction. It closed the day we signed it, and that's really when the integration work began in earnest. And, so, we're continuing to dig through, and we are seeing early success and greater success than we had counted on in things like corporate integration where we've been able to identify and eliminate corporate redundancies faster.

We're seeing things like [ph] Seven Picks (01:01:39) network and the safety network where we knew there might be some overlap come together and we're realizing benefits from that sooner. And, so, that's really the acceleration of the $25 million to $50 million in this year. I don't think our view on the overall synergies related to that business really have changed. The timing hasn't changed. There is a heavy piece of technology immigration that has to occur. And, as you know, with the NYSE acquisition, that's kind of the last chunk of synergies that we're going to realize there. I suspect that will be the case at IDC as well. We will certainly get the synergy, the timing of them. I'll give you an update on 2017 as we move later into this year and I'll give you an update on 2018 as we move into the later of 2017. But, we've said at the beginning of the year, $220 million to go. We've now got a $100 million of that that will get done this year. I'm very confident over the course of 2017 and 2018 and maybe a little bit into early 2019 that we will get that last $120 million out of what's roughly now a $2 billion expense space.

Alex Kramm
UBS Securities LLC

Q

All right. Very good. And, then, just secondly, coming back to the data side, just for a minute here. I think one of the things you don't talk about a lot is that you actually have a pretty big desktop presence now. I believe, like you have WebICE in the past, and I think IDC got you I think two different data – desktop brands and obviously trade for it. So, any bigger plans for that? How should we think about – I mean, you talk about proprietary data really being your focus but now you've got a lot of desktop space. So, can you lever that into anything more interesting or is it just a side business for you?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

A

Well, we've always – when we started the company, Chuck Vice and I designed version 1.0 of what we call WebICE, which was a screen that you could log on to via the Internet. And that screen still exists today in versions that go way beyond my expertise, for sure, and has been an important part of our ecosystem.

Really, for us, the focus is talking to an end user customer, saying how do you want to consume the services that we provide? We can give you an API if you want to build your own infrastructure, or we can give you certain tools that we can put on your desktop or on your phone. And because we really have upped our game after acquiring the New York Stock Exchange, when it comes to cyber security and thoughtfulness about connectivity, we're very, very good counterparty to many financial institutions that care deeply about these things. So, it is a means to an end in our mind. But we are bringing all of that together, again, as part of the sales reorganization, and the way we're going to offer and package things. And we think every day becomes a more and more powerful offering, and that's how we think about it.

Alex Kramm
UBS Securities LLC Q

All right. Fair enough. Thank you.

Operator: Thank you. And the next question comes from Chris Allen with Buckingham. Please go ahead, Buckingham. You are live. All right. Very good. Then the next question comes from Vincent Hung with Autonomous.

Vincent Hung
Autonomous Research US LP Q

Hi. So, when we think about the tailwind in data from the shift independent pricing sources and regulatory requirements, how much more runway is there here?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer A

Well, I mean, it's hard to have a crystal ball to predict the future, but I will tell you that in markets that we see that become fragmentated, the data becomes the currency. Data is king. Information is king in fragmented markets. And we think that there's just no choice but for markets that used to be pretty global and contained to become more fragmentated due to algorithmic trading, payment for order flow, new competitors that are building digital systems and the fact that there's going to be more local regulations.

So, we think that on the same time that those markets are changing and evolving, the customers are getting more sophisticated about the ability to consume data and make decisions on risk management going forward. So, I just think it's a long-term trend and I think – I've said before, I think the data package that you have on your mobile phone will be bigger in five years than it is today and the same for me and everybody that's listening. I just think that it is the unique opportunity of our times to really be connected and have vast amounts of information at your fingertips.

Vincent Hung
Autonomous Research US LP Q

Yeah. And just lastly, do you have any insight into the sales cycle in the IDC [ph] north of (01:07:04) the exchange data businesses?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer A

Yeah. Well, interesting. So, we have a high renewal rate. So, there's a vast audience of people that have agreements that have expiration dates and we have a team that goes in well before that. And those renewals happen as you can see a very high rate of renewal. And that sale cycle is an obvious one that is driven by the contracts.

But for new acquisitions, we've seen some of the, as I've mentioned, some of the aggressive market participants particularly people that are doing exchange traded products and new innovative things want to have speed to market. So, those sale cycles have tended to be short.

We're also seeing, I think some longer sale cycles where we're in conversations with people about wholesale changes to the way we deliver and the technology that underlies our data and the way we deliver it and the way the two of us would technologically connect and work together. Those are probably multiyear cycles because we both are committing to build kind of new infrastructure that will better scale for future demand.

And then, there's everything in between. We are pleasantly surprised, I would tell you that we predicted that we could grow this business quickly and we have definitely done that. So, there is a part of the sales cycle that is moving very, very quickly to the point that you can see it in the increased growth of the businesses that we own. And so, that's the good news. But there is – we will tell you, there is a back end to it based on some of these other trends that we think will pay dividends into the future.

When Scott is guiding that already can tell you what the fourth quarter number is going to be, it gives you some indication that we have visibility into the next few quarters that is pretty accurate.

Vincent Hung
Autonomous Research US LP

Q

Thanks.

Operator: Thank you. And that does conclude the question-and-answer session. So at this time, I would like to return the call to Jeffrey Sprecher for any closing comments?

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer

Well, thank you, Keith, our operator, and I want to thank all of you who joined us today. We'll continue to update you on our progress over the balance of the year and look forward to talking to you on our next earnings call.

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