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Intercontinental Exchange, Inc. (ICE)

Q3 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, and welcome to the Intercontinental Exchange Third Quarter 2016 Earnings Conference Call. All participants will be in listen-only mode. [Operator Instructions] Please note, this event is being recorded.

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

Kelly Loeffler
Senior Vice President, Corporate Communications, Marketing & Investor Relations, Intercontinental Exchange, Inc.

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

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

In our earnings supplement, we refer to certain non-GAAP measures, including adjusted income, operating margin, expenses, EPS, debt-to-EBITDA, and tax rate. We believe our non-GAAP measures are more reflective of our cash operations and core business performance.

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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 refers to adjusted diluted earnings per share.

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, Intercontinental Exchange, Inc.

Thank you, Kelly. Good morning, everyone, and thank you for joining us on our today. I'll begin on slide four and cover our results through the first nine months of 2016.

Consolidated net revenues grew 4% to $3.4 billion, with trading and clearing revenues up 2% and data and listings revenues up 6% versus the prior year.

In addition, operating margins expanded 4 points to 57% and expected 2016 synergies have increased over 50% to $115 million. All of these factors enabled adjusted earnings to grow 10% versus 2015 pro forma results.

This strong financial performance also generated record operating cash flow of $1.5 billion through September. This strong cash generation enabled us to reduce our leverage, grow our dividend and in October, to restart our share repurchase program.

We are executing a well designed strategic plan, are efficiently integrating our acquired businesses, and are delivering top and bottom line growth, strong cash generation and improving ROIC and capital return, all less than a year after closing our acquisition of Interactive Data.

Now let's turn to slide five, where I'll walk you through our results for the third quarter. Revenues in the quarter were up slightly over the prior year. Adjusted operating expenses declined 3% year-over-year and margins expanded to 55%. Adjusted operating income increased 4% year-to-year and adjusted earnings per share were $3.21. Of note, you'll see that our third quarter tax rate was roughly 30%. We currently expect a similar rate for the fourth quarter.

Moving next to slide six, I'll provide some additional details about our third quarter revenues. While our total revenues were roughly flat, our data and listings segment revenue grew 5% year-over-year, and represented 55% of our consolidated revenue for the quarter.

Within the data and listings segment, our exchange data was up 17% year-over-year. Pricing and analytics revenue would have grown 3% excluding the weakness in the pound and the impact of a large customer true-up that occurred in the prior third quarter.

Our data revenues remain on track to grow between 6% and 7% for the full year 2016 and the outlook is favorable for at least a similar level of growth in 2017.

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Our trading and clearing revenues declined 4% versus the prior year as lower volatility and the precipitous fall in the pound created a significant headwind. Within the trading and clearing segment, though, commodities revenue grew 2%, including energy revenues, which grew 4% year-to-year.

Oil and natural gas were both strong contributors and continued to grow in October. Despite continued growth in our OTC clearing business, financials revenues declined 14%, including interest rate revenues which were down 15%. Interest rate futures volume grew 13% in the quarter, but revenues were significantly impacted by the weaker pound.

We expect to publish our October volumes on Wednesday, and despite continued currency impacts and lower volatility in equity, we preliminarily expect to report solid results including; oil volumes up around 10% and interest rate volumes growing more than 50% versus the prior year.

The increased volumes, stable to improving open interest levels and continued growth in exchange data customers – interest in the markets we operate remains high.

Now let's flip to slide seven, where I'll discuss our expense performance and provide updated guidance. Third quarter adjusted operating expenses declined 3% year-over-year to $484 million, and pro forma operating margin expanded by 2 points.

Importantly, please also note on the right side of the slide that margins expanded in both our business segments. As we continue to integrate our acquisitions and streamline our operations, we are realizing Interactive Data synergies on an accelerated basis.

We now expect to achieve around $115 million in synergies for 2016. Increased synergies and the weaker pound enabled us to maintain our full year adjusted expense guidance despite the addition of expenses related to the Securities Evaluations and Credit Market Analysis acquisitions.

For the fourth quarter, we expect adjusted expenses in the range of $500 million to $505 million with the quarter-to-quarter increase due largely to the addition of these recently acquired businesses.

Our final full year 2016 expense guidance reflects a reduction of nearly 3% versus 2015 and a $75 million improvement from our guidance at the beginning of the year. This improvement benefited from roughly $35 million largely related to the impact of the lower pound, but, more importantly, reflects an additional $40 million in synergies realized during 2016.

I'll conclude my prepared remarks on slide eight with a review of our cash generation, deleveraging and capital returns.

We generated record operating cash flows of $1.5 billion in the first nine months of the year and deployed that cash to invest around $250 million in CapEx, to reduce our debt by $1 billion and to return over $300 million to shareholders through dividends.

We reduced our leverage from 2.8 times at the end of 2015 to 2.3 times at the end of September. Importantly, we remain on track to reduce leverage below 2 times during 2017, which allowed us to restart our share repurchase program in October and will support our objective to grow our dividend as we grow.

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We remain confident that our solid cash generation will continue to support our strong investment-grade rating, enable additional strategic investment and allow us to increase our capital returns to shareholders.

Our results for the first nine months of this year reflect our commitment to execution, innovation and value creation for our shareholders. We deliver on this commitment by expanding our footprint to meet the ever-changing needs of our customers in a very dynamic time in our industry.

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, Intercontinental Exchange, Inc.

Thank you, Scott, and good morning to everyone on the call. This morning, I'll take a few minutes to update you on key areas of investor interest and then we'll conduct the question-and-answer session.

I'll start with the topic of consistent long-term growth on slide nine. Our 10-fold revenue growth over the last decade, including revenue that doubled and earnings that have tripled in the last three years, is driven by expanding the range of ways we serve our customers around the world. This growth continues with total futures volume up 20% in the month of October, alongside an expanding data business that is meeting the secular demand for more information.

As a start-up company, we gained a foothold by electronifying trade execution. This market transparency and product standardization then drove demand for clearing to serve the growing need for risk management. And today, as capital and operational efficiencies become paramount, our customers require more of our proprietary information to support risk management, trading, and investment management.

Our services continue to evolve with changes in the market, which creates shareholder value by anticipating and capitalizing on change. As the most global exchange operator, with over 40% of our total revenues derived outside the U.S., we're moving quickly to leverage our scalable technology infrastructure across North America, Europe, and Asia.

In an ever-fragmenting marketplace, we're providing the consistent tools, technology and data sources that customers require in order to stitch together the big picture on an enterprise scale. As a result, we're benefiting from balanced geographic, product, and customer diversification. And because we're not levered to any one cyclical trend or geography, we've led our space in growth on virtually every metric over the last decade.

On slide 10, I'll highlight the strategy behind our balanced approach, driven by a virtuous cycle across our global markets, clearing houses, data and listings.

Transaction-based revenue can be cyclical, but market participants always require information to make good risk management decisions. This is why we're establishing a new approach for market data for our customers who've told us that they're looking for flexible and efficient ways to receive and respond to information. Our investments in technology that help scale our infrastructure are allowing us to serve customers on an increasingly integrated platform.

Following the financial crisis, many new opportunities to provide valuable services have emerged. Whether it's increased compliance, the move to independent pricing, demand for information security, algorithmic trading or the trend toward passive investing, each of these drives increasing demand for data.

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These dynamics have only begun to play out. An example is last month's SEC ruling on liquidity, which will require the measuring and reporting of liquidity risk by certain ETFs and mutual funds. Our Liquidity Indicators product is developed specifically to meet the reporting requirements in the U.S. and Europe, particularly as both the SEC and MiFID rules come into effect.

To further build on our capabilities, we completed the acquisition of S&P's Security (sic) [Securities] (12:25) Evaluations and Credit Market Analysis. These assets add to our portfolio of unique information that spans virtually all asset classes and provides workflow support for the front, middle and back offices. And having increased our capabilities for expanded bond price evaluations, we're developing new types of fixed income indices for institutional investors, as a complement to our Treasury Indices. We'll have more details on this in the coming weeks.

We're rapidly integrating the former Interactive Data, SuperDerivatives, NYSE Index operations and ICE's exchange data to form the comprehensive global ICE Data Services organization.

In the third quarter, we also completed the integration of the safety connectivity business with our 7ticks network to be in a position to offer an expanded range of service. We're focused on leveraging our broad product and client service platform to drive efficiencies for both our customers and for our company. We believe we're in the early stages of bringing our complete and flexible enterprise data solution to bear and we'll continue to update you as we build out an integrated data platform.

The other component of this segment is our listings business. And while the IPO environment continues to be muted, we had a record quarter for revenue. Since ICE's acquisition of NYSE Euronext, we've listed 18 out of the 20 IPOs that raised $1 billion or more, including the largest IPO in 2016 with the listing of ZTO last week.

As we always do, we're also curating our business lines to stay focused on our core capabilities. So we've decided to sell a company known as IDMS that came to us as part of our acquisition of Interactive Data. This business provides services to wealth management firms. We have also decided to sell NYSE Governance Services, which operates in the governance, risk and compliance space. While good businesses in their own right, they don't meaningfully leverage ICE's core competencies or have our strong margin growth profile and so we believe that they'll be more valuable to others within their core sectors.

ICE's recurring revenue grew to over 55% of our total revenue in the third quarter, compared to just 38% in the prior third quarter. Today, the majority of our revenue is ratable and subscription-based, which allows greater visibility into cash flow generation and which provides balance to the cyclicality of the transaction segment. This also leads to less volatile earnings and more consistent cash flow, which we believe is a higher value business.

On the other side of our revenue equation is highlighted on slide 11, where you can see the ongoing strength in our transaction and clearing segment, with revenues up 2% in the first nine months. In the third quarter, volume, again, grew year-to-year in energy, agriculture, metals, interest rate and MSCI indexes. Notably, year-to-date through October the volume in our European interest rate futures complex is up 17%, and surprising to many, is growing three times as fast as the U.S. interest rate futures complex traded elsewhere, even with all the speculation surrounding a potential Fed rate hike. Importantly, volume in many of our benchmark contracts are up double-digits year-to-date, including ICE Brent Crude, our agriculture complex, sterling, Euribor and our MSCI futures contracts.

We also set records in our emerging contracts, such as the ICE Ares pound denominated LIBOR future. This is the first sterling denominated interest rate swap future to trade and clear on an exchange. And you can also see

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the solid trends in open interest, even amid a less volatile third quarter, as market participants kept their positions open heading into year-end. And we continue to grow our lead in our share of crude oil open interest.

We believe that our continued growth is driven by the global relevance of our products and their exposure to the numerous international factors that are driving markets today. So I'm pleased to note that ICE Clear Europe and ICE Clear Credit both received their EMIR compliance recognition from ESMA during the third quarter. And yesterday, ICE Futures Europe received the CFTC's approval for its Foreign Board of Trade application. These are just a few examples of how the U.S., the UK and the EU have worked together to utilize equivalents rather than passporting to manage cross-border international regulatory frameworks.

Our drive to grow and evolve has produced consistent growth throughout market cycles and anyone that's followed the financial markets for a few years knows that there is continuous change going on. One of those drivers of change and driver of opportunity is Brexit. The UK remains an important global market center with prudent regulation, a focus on ensuring market confidence and a strong financial services talent pool. We're maintaining an active dialog with officials in the UK government to help preserve the role of markets in London's futures. We're encouraged by the practical approach that the UK government is taking to carefully consider the future opportunities as an independent country.

And similarly, we do not believe that financial market infrastructure leaving London is in the best interest of Europe's markets. Many have questioned whether we might bid for the London Stock Exchange, an opportunity that we called off earlier this year in the absence of sufficient information to establish the value of a bid coupled with our concerns about the effects on the company of a Brexit vote.

Because this important asset could be leaving the city of London, we believe that this may create new opportunities for us as a leading infrastructure provider as we see the ability to continue to invest in the UK. For example, in December of last year, we invested in the London based Trayport, an operator of important technology that serves the European commercial energy markets.

Recently, the CMA issued a finding that ICE-owning Trayport would have an adverse impact on competition in the European utility derivatives trading and clearing markets. And that we should therefore divest the Trayport.

ICE and Trayport are not competitors, which the CMA recognized. So our acquisition of Trayport does not involve a loss of competition under a so-called horizontal theory of harm. The CMA's decision relied on a simplistic assessment of market dynamics rather than a rigorous quantitative analysis. And it also relied largely on the views of conflicted third parties that have a competitive interest in the outcome of their review.

ICE produced a detailed analysis to demonstrate that we would not and could not operate Trayport in a way that impairs access. We also offered far-reaching operational and governance remedies to address CMA's theoretical concerns. So we believe that CMA's decision under such a speculative and vague theory is disproportionate and it would be a terrible precedent for future merger and acquisition activities in Europe. Therefore, it's important for us that we pursue our right of appeal in connection with this pro-customer, pro-market transaction.

We're committed to continuing Trayport's operations in London. And we continue to operate the company just as we have for most of last year. Across our entire organization, our focus remains on servicing customers. And we believe that if we do the right things with our customers in mind, then we're serving our shareholders.

Let me conclude my prepared remarks on slide 12, where you can see that we continue to build on our decade long track record of growth. This year again, we've grown revenues, met or exceeded synergy expectations,

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reduced expenses and expanded our margins, driving 16% adjusted earnings growth in the first nine months of the year. We've generated over $1.5 billion in cash flow, repaid $1 billion in debt, grew our dividend, restarted our share repurchase program, and finalized our stock split, which will occur later this week. And we're already engaged in planning for a very productive 2017.

And so I'd like to thank our customers for their business in the quarter and I'd also like to thank our team for their continued efforts in meeting our growth objectives.

I'll now turn the call back to the operator, Allison, and we'll be glad to take your questions.

QUESTION AND ANSWER SECTION

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

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Q

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

Scott A. Hill
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Good morning.

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

A

Good morning.

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Q

I guess, first question is for Scott, on the expenses, and I'm looking at slide seven, and we've talked – you made the point about increasing the synergies related to IDC. And I'm just trying to reconcile the expenses for the data and listings segment, looks flat year-over-year, and reconcile that with the expenses that – the synergies that you're taking out, just trying to see why we're not seeing it. Is it acquisition related or investments, et cetera?

Scott A. Hill
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Yeah. Good question, Rich. So there are a couple of factors that are at play. Number one, recall that at the beginning of the year when we talked about the synergies, we also mentioned that we'd have about a $45 million increase in compensation and that we'd be making about $30 million of investment in our products and technology. A lot of that product investment is resulting in deals like the Index deals that we're announcing in the data space, the continuous evaluative product that we've announced in that space. So there are investments there. Clearly, a portion of the compensation go to our data team who have more than earned it in the outstanding execution that they've had this year. The other thing that you see very clearly on the chart is we've had some M&A spending in the year that tipped the data space. As you might imagine, a lot of that's been around the Trayport deal.

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And then the last thing I'd note is a number of the synergies come through our corporate functions in the first year of any deal and those corporate expenses tend to get allocated to the segments based on revenue, because – an account that supports the company, they don't support data versus trading. And so you actually do see some of the synergies even though they're related to IDC showing up in the trading segment, just because of the way that we allocate. So, I think if you take a step back, we've laid out a pretty clear view of $115 million of synergies in the quarter, but that hopefully helps a little bit on the dynamic that you're asking about.

One thing, though, I'd point out in that same area of chart seven, we've disclosed our operating margins for each of the segments. And I think that's an important story that a lot of people are missing. If you look at our aggregate margins and kind of compare that to a diverse basket of competitors, I'm not sure you get the same view you do when you look at margins in the trading segment that are 50% in the quarter and 51% year-to-date, compare those to other data companies that we compete with and then look at the trading margins, which include the New York Stock Exchange and are 61% in the quarter and 64% year-to-date. And again, compare those to our exchange competitors that we deal with.

So, hopefully that helps with your direct question, but I think that area of the chart you're looking at is one I'd point a lot of investors to, because I think there's an important story that's being missed.

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Understood. It's very helpful. And, Jeff, one follow-up. You do a great job at highlighting the trends and demands in market data. And I'd say the theme or I felt like the theme last quarter was fragmentation drives increased demand for data. I guess the question relates to, you're starting to see at least in, say, one asset class, but some – a little drum beat of pushback from some of the – like market makers, et cetera, pushing back on the increased pricing for market data. So I guess the question is, how do you balance that? Is that just one asset class and are the trends that you're talking about just overwhelm sort of this pushback from some market participants?

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

A

I think that is the answer, yes. But just to give it some context, it's always interesting to us that a lot of the people that try to benefit from fragmentation of markets then complain about the fact that it costs them more to do business in that fragmentation that they helped create. And that is what's going on. You look at where you've seen just fragmentation in the past couple of years with new entrants in the energy futures space, new entrants in the European interest rate space and look at growth of our complex in those spaces, our trading volumes have grown and our data sales in those areas have grown.

In other words, this fragmentation causes arbitrage between markets. It's less easy for people to figure out where the market is at any moment in time. It's much more difficult to create a settlement price for marketing books. There's much more load, if you will, on the middle and back office for compliance, best execution and so on and so forth. All of that trend is driving demand for increased information.

One point that that group that is spending more and more on data doesn't recognize is that the actual cost of data is plummeting. There is just the fact that people are buying more lower cost, declining cost information. And so the spend for many of these people is voluntary. It is because they want a holistic view of the market and they voluntarily are going out and having to buy more and more information, even though on a per unit basis, information prices have been collapsing over the last decade.

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So, we think the total wallet, if you will, is going to continue to increase. Regulatory pressures, back office compliance pressures, reporting pressures, things that all of us in a more regulated financial service industry are going to have to adjust to and pay for. Yes, it's expensive. Yes, it wasn't something that we had to do before. It's affecting our firm as well. But it is an irreversible trend in my mind. We still have a lot of regulation to come in to impact in Europe, MiFID for example, the differences that may come out of the EU and the UK with a actual Brexit separation. So, I would expect that that trend is going to continue.

Richard Henry Repetto
Analyst, Sandler O'Neill & Partners LP

Q

Understood. Thanks very much.

Operator: Our next question will come from Michael Carrier from Bank of America Merrill Lynch. Please go ahead.

Michael Roger Carrier
Analyst, Bank of America Merrill Lynch

Q

All right. Thanks a lot. Hey, Scott, maybe just one question on the fourth quarter, just on the expense guidance. You mentioned some of the driver was related to, I think it was some small M&A activity. [ph] You had (28:28) Securities Evaluations and the Credit Market Analysis.

I was just wondering, because those are relatively small, can you give us any color on maybe the revenue contribution from those transactions, just because I feel like we might have like the expense kind of number guidance, but we don't have anything on the revenue side.

Scott A. Hill
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Yeah, I appreciate the question. So the increase to $500 million to $505 million in the quarter is almost solely due to those two acquisitions. And so, if you kind of back out, you call it $15 million, the guidance range would have been $485 million to $490 million, which is right where we've been on average every quarter this year. And so relatively flat on a quarter-to-quarter basis.

In terms of revenue, you will likely recall that I mentioned last quarter, we'd see a slight deceleration into the third quarter and then a reacceleration into the fourth, where we would approach $500 million of data revenue. That was at a time where the pound was still around 131. It's now closer to 122. And so that outlook softened a little bit.

So on an apples-to-apples basis versus maybe the high $490s million, we'd be looking at something closer to the low to mid $490 million. That notwithstanding, I actually think data revenues in the quarter including the two acquisitions will be north of $515 million. And so those expenses that I mentioned in the earnings script will be more than offset by revenues and then obviously that adds to our overall data business and gives us an opportunity as we combine those two companies over time.

Michael Roger Carrier
Analyst, Bank of America Merrill Lynch

Q

Okay. Thanks. That's helpful. And then, Jeff, just on the M&A side, so you mentioned, I guess, the issues with Trayport or the process of going through the – basically revisiting it and giving your side of the outlook. And then on LSE, it just sounded like based on your commentary on the outlook that there could be potential opportunities if certain firms do less in the UK. So I just wanted to get your updated view on the M&A opportunities in the space

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and particularly given maybe some of the regulatory hurdles versus what you guys can continue to do on paying down debt, buybacks, just going forward?

Jeffrey Craig Sprecher A
Founder, Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

It's a very good question. I mean, holistically when we look around at our space, we really see that there's one company that stands out, which would be a great acquisition, which is our own stock. And so, Scott, moved very quickly to get back into the market and on this call announced that he's actually in the market now that we started our share repurchase program.

If you look at the futures space globally, it's relatively flat year-to-date on volumes. If you look at the -- a lot of the other trading and clearing spaces, they're down substantially. But, yet our company is actually growing. And you couple that with this new segment that we have, our largest segment, which is really growing in the trading and – excuse me, in the data and connectivity space.

Scott mentioned in his prepared remarks that we see next year the growth we can – we have visibility because we're signing contracts right now that extend well into next year and beyond for many. We have visibility into the growth of our data business. And so we think the peg ratio of our stock is just off relative to our peers. And so that's been our focus and that's why Scott decided to disclose that we actually got in the market earlier than what I think a lot of people suggested.

Michael Roger Carrier Q
Analyst, Bank of America Merrill Lynch

Okay. Thanks a lot.

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

Kenneth Hill Q
Analyst, Barclays Capital, Inc.

Hey, good morning, guys.

Scott A. Hill A
Chief Financial Officer, Intercontinental Exchange, Inc.

Good morning.

Jeffrey Craig Sprecher A
Founder, Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

Good morning.

A

Good morning.

Kenneth Hill Q
Analyst, Barclays Capital, Inc.

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So you guys announced some enhancements to NYSE Connect for listed companies in September. I think there were some additional ones in October. And this seems to be aimed at some of your Investor Relations teams, finance teams. So I was hoping if you could walk through that offering because it seems like it's an area of focus for some of your competitors as well. So, what should we really expect here and then what kind of maybe additional investment might you need to do there or any potential acquisitions that look interesting?

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

A

Sure. It's a very good question. So, first of all, NYSE has -- when we acquired the business, had a desktop that it provided to corporate treasurers and CFOs. It also has some communications tools that it uses to talk to listed companies so that listed companies can provide updates on various corporate actions and what have you as a requirement they have to the exchange.

We decided to replace that infrastructure with NYSE Connect, which is what we talked about. It's basically a desktop and provides trading information. We've been building that out in a space where when we look at the space and particularly, following up on earlier questions, there is pressure on some of the spend to lower the price of desktops particularly, and that area of data acquisition, the desktop delivery is under a lot of pressure. So having a very low cost desktop that we can provide to people to give them the basic information they need around debt and equities has been very, very well received.

So, in essence, we're a disrupter in providing such a thing. As you can imagine, we have very good data about where stocks are trading, given that we own the NYSE. And we have very good data around where bonds are trading given that we built out this fixed income platform with a number of acquisitions. And we have very good data around corporate actions for our listed companies since it's a requirement that they give that information to us.

So that's a very nice desktop that we can expand on. Right now we're just focused on our listed companies. But we'll see where life takes that offering. It has almost no cost to us in terms of incremental margins. And so, it's an interesting tool in an area where there's a lot of pressure to lower cost by our customer base.

Kenneth Hill
Analyst, Barclays Capital, Inc.

Q

Okay. And just for a follow-up, I think you mentioned a couple sales within your prepared remarks. Have you broken up the revenues or operating income associated with some of those businesses? Also, just wondering if, take a stab at the impact for Trayport during the quarter or how we can think about the run rate revenue expenses for that business as well?

Scott A. Hill
Chief Financial Officer, Intercontinental Exchange, Inc.

A

With regard to Trayport specifically?

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

A

[indiscernible] (35:55).

Scott A. Hill
Chief Financial Officer, Intercontinental Exchange, Inc.

A

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Yeah. Okay. So with regard to Trayport, I think what we told you when we closed that deal, Ken, was that the revenues were around $80 million and then it had operating margin of about 50%. I will tell you that business has continued to perform well and so that those are the kind of numbers that you should have in your head.

With regards to the other two, I don't want to give a lot of detail on the call today. But suffice it to say that as we look to divest those businesses, we will give you more information. And I'll just give you the – what I think you're thinking about it, in terms of modeling it. I'm building my budget with those businesses in and then we'll extract them at the moment if we sell them and we'll give you enough information. Suffice it to say, though, Ken, they're not material in the scheme of things to overall revenues or to overall profit. And, in fact, I would tell you, to overall profit very immaterial.

Kenneth Hill
Analyst, Barclays Capital, Inc.
Q

Okay. Thanks very much.

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

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC
Q

Hi. Good morning. First, in your deck you forecast 6% to 7% revenue growth for data in 2016 and I think, Jeff said in your comments you expect similar growth in 2017. As part of the growth – part of that growth has been driven by higher teen growth in exchange data. Can you give us a sense of how you're thinking about that growth for 2017 and whether the very high level of that exchange data growth can stay in, say, the double digits of next year and if so, how do you get there?

Scott A. Hill
Chief Financial Officer, Intercontinental Exchange, Inc.
A

Yeah. Thanks for the question, Ken. The other thing I want to do is, I want to clarify one point just so it doesn't get misunderstood. We will have additional revenues from the two acquired businesses. We would have grown 6% to 7% without that. So it will help solidify that towards the high end of the range. We would have been at 6% this year without it. And frankly, on a constant currency basis, we would have been above 7% for data even without those acquisitions. But, directly to your question, we have had a very strong performance in our exchange data revenues this year. Jeff talked about it on the last call and this call. That's a solid mix of growth in customers and some additional value that we've captured as we've sold more data to existing customers.

As Jeff said, while there's discussion about prices going up, the price per unit if you look at it in terms of the data that's consumed for the price, that data amount has increased significantly. So a good year this year. We would expect to have a good year again in exchange data next year. I certainly don't expect it to be on par with this year, but we have, as Jeff alluded to, seen very strong sales in our pricing and valuation business, if you will, the former IDC business and that's really what is encouraging us and gives us a good solid foundation to suggest that we could be at least at the same level of growth in 2017 as 2016.

So, said differently, I would expect a bit more balanced growth among, particularly exchange data and pricing and valuations in 2017 versus 2016, which was benefited a little bit more by the exchange data.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC
Q

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Okay. Awesome. Thank you. And then, trailing 12 month ROIC fell to 7.8% this quarter. I have not been able to fully work through it yet. But, basically, any comments there? And then you always put in your deck set the ROIC is above your cost of capital. I notice you didn't say it that time – this time, so want to follow up there as well.

Scott A. Hill
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Sure. I think at this point, Ken, it's just implied that it is. We're the only one in the space that is consistently doing it. So just under 8% versus cost of capital just over 6%, we are generating excess return on invested capital every day we operate the business.

And again, that's unique in our space. If you look on an absolute basis, although we dipped to just below 8%, that relates to the IDC business that we haven't even owned for a year. If you looked at the trends coming out of the last year before that business, we were on our way back to 10%. We'll start to rebuild that as we move through this year and next and you'll see a similar trend.

And again, even at the current levels, compared to the people we compete with, our ROIC compares very favorably. So we'll continue to put it on the chart, which distinguishes us. It will continue to be above our cost of capital, which distinguishes us. And it will continue to be above our competitors, which distinguishes us.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Awesome. Thank you very much.

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

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

Q

Hi. Good morning. Thanks for taking my question. You spoke earlier, I guess, about Brent gaining share of open interest in the crude markets and we can see those same trends, but I guess, on the volume side, we have seen some share migrate back to WTI more recently. Can you just talk about the market share dynamics in the crude markets and what's going on with some of the volume shift?

And then secondly, also related to Brent, I think this time last year you had very significant growth in open interest on a year-on-year basis and I think as of yesterday, futures open interest was basically flat year-on-year in Brent specifically. So can you help us think about outlook here for growth in this contract now that we've gotten some price stability in those markets? Thanks.

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

A

Sure. So, two things are going on in our minds in the oil space. One is that WTI is really the contract that speculators use and there has been, over the last year or so, a lot of speculation about where the price of oil should go. It was $60, go down to $30, will it go back up to $50, those kinds of behaviors, particularly as the U.S. was right-sizing its drilling infrastructure and as high yield was in focus on many of the energy companies.

And so, one would naturally expect that WTI, which we also have, would have more trading in that environment. Brent is and remains the contract that most of the energy space uses for hedging. And the nice thing about that is you can see that that industry continues to use Brent.

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The second trend that goes on is we have competitors that are paying for order flow. And there are people that in the trading business that if you pay them, they will produce volume. And our competitors that do that like to talk about market share and report market share and there's actually investors and analysts that reward them for getting market share, even though it's destroying value for shareholders.

We had a large customer come to us and said, hey, one of your competitors came to us and said that they would buy our business. What are they talking about? They were not talking about to us about lowering our cost. They actually said they would pay us to move. And we said, how much did they say they would pay you? And they said, we will pay you anything, name your price. And so, with that kind of behavior you will always find some people that will take up on that. It doesn't bother us that we lose that share because we are a primary market. And as you can see from data sales and just growth in our open interest and what have you, that people tend to have to rely on the primary market in order to get paid by competitors. So, overall, trading volume goes up, but our volume, which is really the volume of people that want to pay or maybe the wallet share, if you will, continues to go up for us.

And with respect to Brent, this will be, we believe, our 19 consecutive year of growth in trading of Brent. It's almost in – you put a ruler on it. It's almost an unprecedented ability when you think about everything that's gone on in the world over that 19-year period. Wars, the changes in policy, changes in regulation, financial crisis, etcetera. We continue to see Brent just -- its volume just marching forward. So we're very lucky to have that as a primary market. We are really careful custodians of it. And it's why we're not playing that game of going in and asking customers how much do you want us to pay you to do business with us.

Scott A. Hill
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Just to add a – put a couple of numbers on the points Jeff made. If you go back two years, our share of volumes is about 53%. This year it's kind of mid-40%s. But back then our share of OI was a little less than 50%. Today it's 53%.

So the OI is being built by commercial customers in our markets. And by the way, that doesn't even include our swap-to-futures products. If you add that in, in terms of, what the comprehensive oil commercials are trading, where they're hedging their risk, we are the place where those commercial customers come to trade their oil.

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

Q

That's really helpful. Thank you.

Operator: Our next question will come from Alex Kramm of UBS. Please go ahead.

Alex Kramm
Analyst, UBS Securities LLC

Q

Hey. Good morning, everyone. Just wanted to go back to the market data discussion. I think Jeff and maybe, Scott, even as well, mentioned the incremental pressure in the customer base and people looking to reduce cost. So, I don't think that's something you've talked about so far. So, can you talk a little bit more about what you're seeing in terms of the spending environment? Are sales cycles getting pushed out? Are you seeing cancellations? Are clients going out of business? And maybe more holistically, when you look at your data offering, how much of

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the business do you really feel like is must have like – the last thing that people turn off when they turn off a light is to close shop, and how much is more discretionary spending? Thanks.

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

A

Yeah. It's great. Well, first thing I would say to you is that we see our retention rate, our renewal rate which we now have a little visibility into having owned IDC and put ICE Data Services together earlier this year, we see our retention rate is very, very high, maybe even increasing a little bit, well into the – above 90% renewal rate.

So we don't see the pressure, if you will, on those businesses. When we're out talking to customers, where we hear there's a lot of focuses on data that's delivered via a desktop, a lot of focus on the number of screens, if you will, and the acquisition of desktops, we've built the safety network and combined it with the 7ticks network to build essentially a data plant that is distributed via API and we see strong growth in people wanting to buy bulk data, if you will, via an API and manage it internally and not buy it on an individual desktop basis.

We're not really in the desktop space as I mentioned earlier. We have NYSE Connect, which is a desktop that is a very low cost desktop, and to a certain degree is becoming a substitution for the higher desktop providers, if you will.

And so I think that's the trend that's sort of mixed up here. Alex, I really believe that the middle and back office in your firm has no choice but to – for compliance purposes and for improving systems and commoditization of the way risk is being looked at inside large firms is buying that bulk data and figuring out how to redistribute it. And I think that that trend is going to continue, because we haven't really seen the full implementation of MiFID. We haven't seen what the result of a different Brexit regime, the SEC has not fully implemented Dodd-Frank. And so there's still more pressures for compliance and in internal functions that we think will drive demand.

Alex Kramm
Analyst, UBS Securities LLC

Q

All right. Great. Thank you. And then maybe just secondly, on the transaction side, particularly on your futures business, I think one of the things that you don't talk about much is pricing leverage. When you look at your – primary competitor in the U.S., I think for the last three, four years, every year they've given updates on pricing moves that add us 2%, maybe 3%.

You don't really talk about that much and I think your pricing is also way more straightforward. But, how about pricing in that business? I mean, you're talking about the relevance of your products and shouldn't you be taking a little bit more pricing over time, maybe an update on your philosophy there?

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

A

Yeah. I think, generally speaking, we've benefited from keeping pricing relatively untouched and allowing volume to grow. When we think about -- going back to people that pay for order flow in order to create market share, we think about the market slightly differently. We have people that really just look at markets every day and talk to customers and try to say, do we have liquidity all the way out the forward pricing curve. Are there gaps in where people try to do business and where we have markets? And so, we'll provide incentive programs to try to fill in gaps or to make the market better for our customers. And so, we do have incentive programs which touch pricing. But they're not to get overall market share. They're really to make a better market. And we found that consistently we've been able to grow by having that philosophy. So, to a certain degree, we haven't touched the control panel.

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Alex Kramm
Analyst, UBS Securities LLC
Q

All right. Very good. Thank you.

Operator: Our next question will come from Alex Blostein of Goldman Sachs. Please go ahead.

Alexander Blostein
Analyst, Goldman Sachs & Co.
Q

Thanks. Good morning, everybody.

Scott A. Hill
Chief Financial Officer, Intercontinental Exchange, Inc.
A

Good morning.

Alexander Blostein
Analyst, Goldman Sachs & Co.
Q

Scott, I wanted to touch on the margin question. So when you look at the data business, you guys are doing 50%, obviously margins are up nicely since you acquired IDC. Where do you guys see the margins going over time? I understand this is going to be a function both of the revenue growth as well as expense synergies that are yet to come out. But bigger picture, could the profitability in that business ultimately get closer to where the transaction side of the business is?

Scott A. Hill
Chief Financial Officer, Intercontinental Exchange, Inc.
A

Yeah, look, I don't want to predict an end state, but I certainly think there is room for continued margin expansion. And that will come in two flavors as you just said. We still do have synergies that we will extract from that business. We mentioned originally $150 million. We'll do $65 million this year, well above what we thought we'd get done in the first year. But those synergies will continue to come out and improve margins.

The other thing that I've talked about a little bit that I think is really important for people to understand, the incremental margin on the proprietary data we sell is very similar to historically what you've seen incremental margins on our trading business. Where it's more labor-intensive in terms of trying to determine what the price of a bond is, there are people involved with that versus oil being decided on an exchange. But once you determine that price of the bond, if I can sell it to a second customer and a third customer and a fourth customer, the incremental costs are very small. And so, revenue growth drives high incremental margins. Synergies drive margin improvements. And so I absolutely think the expectation for that business is margin expansion over time. Again, I'm not going to guess at what the end state is, but it's higher.

Jeffrey Craig Sprecher
Founder, Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.
A

And Alex, to add on to the prepared comments that I made, what ICE does really well is to use technology to build something complicated and do it one time and then use our network to sell that thing many times. And so the businesses that I mentioned that we're going to exit and businesses that we've exited in the past when we acquired NYSE and other firms tend to be very good businesses that are growing, but they don't have the phenomenon where we can use our technology skills to build something once and our network to redistribute it.

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And so, for example, we're going to sell NYSE Governance Services. That is a very hot space. It's a growing space. Companies need more infrastructure to educate employees about anti-money laundering. There is a huge demand for what they do and that company has -- is growing and has growth potential. But it doesn't have that phenomenon that I just mentioned that really we do well. So that's why we say, we think that company will be better owned by others; a good company, but one that doesn't cater to our needs. We tend to see other people in our space go into those kinds of businesses. But we just don't do well and it doesn't really work for us to be in these lower margin consultancy type businesses.

Alexander Blostein
Analyst, Goldman Sachs & Co.

Q

Got it. It makes sense. And then just a quick follow-up around the capital return dynamic. You guys have talked about in the past running with probably a little bit higher leverage than you targeted in the past prior to that [ph] EC deal (53:38). Maybe an update there? What's kind of the debt to EBITDA ratios we should be thinking about on a go forward basis as we try to kind of think through the buyback over the next year or so?

Scott A. Hill
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Yeah, so you're right. Historically, we had talked about 1.5 times and we've more recently talked about the need to get below 2 times. And that remains the objective. We are on a path to do that. That's why we were able to get back into the market in October and take advantage of what Jeff correctly identified as the best buy in the market in our opinion.

So, we definitely are on a path to get below 2 times. We're committed to get there. But, as I said in my prepared remarks, not only were we able to restart our buybacks in October, but we remain committed to grow our dividend as we grow. And I think with the increased cash generation that you're seeing, we're going to be north of $2 billion of operating cash flow this year, well north of probably $1.7 billion of free cash flow this year, and that should definitely allow us to get our leverage back below 2 times, to continue to ramp up our share repurchases, because we certainly aren't at the level in the fourth quarter that we would anticipate being as we move through next year and then also to grow the dividend as we grow.

All of which would hopefully move us, in 2014 and 2015 we returned almost $1 billion a year. This year it will be between $400 million and $500 million. But I certain think as you get into 2017 and certainly 2018 and 2019, you're going to see us get back to and above the levels you saw in 2014 and 2015.

Alexander Blostein
Analyst, Goldman Sachs & Co.

Q

Got it. Very helpful. Thanks so much.

Operator: Ladies and gentlemen, our next question will come from Vincent Hung of Autonomous. Please go ahead with your question.

Vincent Hung
Analyst, Autonomous Research US LP

Q

Hi. Good morning.

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Scott A. Hill
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Good morning.

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

A

Good morning.

Vincent Hung
Analyst, Autonomous Research US LP

Q

Just on pricing in the data business, is it possible to break out the different pricing schemes in terms of how much is enterprise based pricing versus per usage versus per head? And actually as a related question, do you feel you've fully utilized the opportunity in exchange data when it comes to finding new ways to price the data, which is pricing certain data sets differently or different pricing schemes for different customers?

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

A

Well, to answer the first part of your question is it, we haven't looked at the data in the way you just described. In fact, we're – part of the exercise that's going on as we're creating ICE Data Services is just for management to figure out the metrics that we're going to use to run the business and honestly it probably won't be as detailed as you just laid out, because there's a lot of moving parts.

Particularly given the second part of your question, which is we do see the opportunity because we have a large data set that contains some commoditized data, some proprietary data, some network infrastructure and some desktop space, some indices and some calculation engines, to do sort of package deals, enterprise package deals for people and there's tremendous interest in that. People can come do those deals directly with us. They don't have to have a middleman. And we can provide a range of services.

So we've been very successful early on in the ETF/ETP space, where there's a lot of cost pressure on those competitors and yet they need a full range of services from listing the ETF, to calculating the ETF, to having daily prices of the things that are in the ETF to creating the index for the ETF and using our brands and marketing the ETF. So those kinds of package deals don't lend themselves to some of the metrics that you just described. So I doubt that we'll ever fully get to that.

Vincent Hung
Analyst, Autonomous Research US LP

Q

Okay. And what's the guidance on synergies for next year? And is there a figure for any cost synergies from the S&P business you acquired?

Scott A. Hill
Chief Financial Officer, Intercontinental Exchange, Inc.

A

So we gave you updated guidance on the synergies for this year at $115 million. I'm very encouraged by the work that Ben Jackson and Lynn Martin have been doing on the integrated -- in a much bigger team in support of them to get that business integrated.

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I think we have good visibility into where we are this year, growing visibility into where we'll be next year and on the fourth quarter earnings call in February, I will definitely give you an update on our overall synergy progress as we work to take out the remaining kind of $105 million to $110 million we have to go overall.

Vincent Hung
Analyst, Autonomous Research US LP

Thanks.

Operator: Ladies and gentlemen, this will conclude our question-and-answer session. I would like to turn the conference back over to Mr. Jeff Sprecher for any closing remarks.

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

Thank you, Allison. And thank you everybody for joining us today. We'll look forward to updating you on our progress as we move through the balance of the year. So have a good morning. Thank you.

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

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