

04-Aug-2022

Intercontinental Exchange, Inc. (ICE)

Q2 2022 Earnings Call

CORPORATE PARTICIPANTS

Mary Caroline O'Neal

Head-Investor Relations, Intercontinental Exchange, Inc.

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

Benjamin R. Jackson

President & Chair-ICE Mortgage Technology, Intercontinental Exchange, Inc.

Jeffrey Craig Sprecher

Founder, Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

Lynn C. Martin

President-NYSE Group & Chair-ICE Fixed Income & Data Services, Intercontinental Exchange, Inc.

OTHER PARTICIPANTS

Richard Henry Repetto

Analyst, Piper Sandler & Co.

Alex Kramm

Analyst, UBS Securities LLC

Kyle Voigt

Analyst, Keefe, Bruyette & Woods, Inc.

Craig Siegenthaler

Analyst, BofA Securities, Inc.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone, and welcome to the ICE second quarter 2022 earnings conference call. My name is Victoria, and I will be coordinating the call today. [Operator Instructions]

I'll now pass it over to Mary Caroline O'Neal, Head of Investor Relations, to begin. Please go ahead.

Mary Caroline O'Neal

Head-Investor Relations, Intercontinental Exchange, Inc.

Good morning. ICE's second quarter 2022 earnings release and presentation can be found in the Investors section of the ice.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 2021 Form 10-K, second quarter Form 10-Q and other filings with the SEC. In addition, as we announced in May, ICE has agreed to acquire Black Knight. The transaction is pending customary regulatory approval, and we expect to close in the first half of 2023.

Please note this call does not constitute an offer to sell or buy or the solicitation of any offer to buy or sell any securities, nor shall there be any sale of securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities law of any such jurisdiction. No offerings of

securities shall be made except by means of prospectus, meeting the requirements of Section 10 of the Securities Act of 1933.

In connection with the proposed transaction, ICE has filed with the SEC a registration statement on Form S-4 to register the shares of ICE common stock to be issued in connection with the transaction. The registration statement includes a proxy statement of Black Knight that also constitutes a prospectus of ICE. When finalized, the definitive proxy statement prospectus will be sent to the stockholders of Black Knight, seeking their approval of the transaction and other related matters.

Before making any voting or investment decisions, investors and security holders of ICE and Black Knight are urged to carefully read the entire registration statement and proxy statement prospectus as well as any amendments or supplements to these documents because they contain important information about the proposed transaction.

In our earnings supplement, we refer to certain non-GAAP measures. We believe our non-GAAP measures are more reflective of our cash operations and core business performance. You'll find a reconciliation to the equivalent GAAP term in the earnings materials.

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. Throughout this presentation, unless otherwise indicated, references to revenue growth are on a constant currency basis. Please see the explanatory notes on the second page of the earnings supplement for additional details regarding the definition of certain items.

With us on the call today are Jeff Sprecher, Chair and CEO; Warren Gardiner, Chief Financial Officer; Ben Jackson, President; and Lynn Martin, President of the NYSE.

I'll now turn the call over to Warren.

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

Thanks, MC. Good morning, everyone, and thank you for joining us today. I'll begin on slide 4 with some of the key highlights from our second quarter results. Second quarter adjusted earnings per share totaled \$1.32, a 14% increase year-over-year, marking the best second quarter in our company's history and is on top of 12% growth in the second quarter of 2021. Net revenues totaled \$1.8 billion, an increase of 8% versus last year, driven by a balanced contribution from both our diversified transaction revenues and our recurring revenues, which account for over half of our business and increased by 8% versus last year.

Second quarter adjusted operating expenses totaled \$740 million and were at the low end of our guidance range. Versus the midpoint of our guide, second quarter expenses benefited from favorable FX, various expense efficiencies and lower variable costs, particularly customer acquisition costs in our Listings business.

Moving to the full year, we're lowering our expense guidance to a range of \$2.97 billion to \$2.99 billion. Midpoint to midpoint, this represents a reduction of \$35 million versus our prior guidance and, similar to our second quarter results, is driven by expense efficiencies, lower variable costs and favorable FX. Second quarter adjusted operating income increased by 14% to \$1.1 billion, with our adjusted operating margin expanding to 59%.

Moving to the balance sheet. Shortly after we reported our first quarter results in May, we took the opportunity to raise \$8 billion in new senior notes. We used \$3 billion of these proceeds to refinance our 2022 and 2023

maturities. And, along with the proceeds from our sale of Euroclear, reduced our commercial paper balances to zero. With no maturities until the middle of 2025, we enter the second half with a balance sheet that is well positioned amidst an exceptionally volatile interest rate environment.

The remaining \$5 billion of proceeds raised in May is earmarked to fund a portion of our announced acquisition of Black Knight. Based on the favorable rates that we've secured on these long-term notes and the current forward rate expectations for both our commercial paper and term loan, we anticipate we will be well within our targeted 4% to 4.5% cost of debt financing for the transaction. It is also worth noting that alongside the financing in May, we maintained our A- and A3 pre-acquisition ratings from both S&P and Moody's.

Now let's move to slide 5, where I'll provide an overview of the performance of our Exchange segment. Second quarter Exchange net revenues totaled \$1 billion, an increase of 13% year-over-year. This strong performance was driven by an 80% increase in our interest rate futures and a 36% increase in our equity derivatives revenues.

Importantly, total open interest, which we believe to be the best indicator of long-term growth, ended July up 11% versus the end of last year, including 6% growth in energy and 21% growth across our financial futures and options complex.

Second quarter cash equities and equity options revenue increased by 17% year-over-year. And in July, we successfully migrated the NYSE Arca Options platform to our new Pillar technology, while continuing to seamlessly process record message volume, a testament to our team's hard work and our broader technology expertise.

Exchange recurring revenues increased by 7% year-over-year. This growth was driven by strong demand in our energy exchange data, continued benefit from our record 2021 Listings performance and a onetime accrual in our Listings business that we do not expect will reoccur in the second half.

Turning now to slide 6. In our Fixed Income & Data Services segment, second quarter revenue totaled a record \$512 million, a 13% increase versus a year ago. Transaction revenues increased by 78%, including 85% growth in ICE bonds and 76% growth in our CDS clearing business. This strong growth was driven in part by customers reengaging and allocating more capital to CDS trading as well as our continued efforts to build institutional connectivity to our bond platforms where we are seeing market share gains in our municipal bond business.

Recurring revenue growth, which accounted for over 80% of segment revenues, grew 5% in the quarter and was once again driven by strength in our consolidated feeds business as well as continued growth in the ICE Global Network.

Looking to the second half, we expect year-over-year growth in our recurring revenues to continue, supported by an ASV that enters the third quarter up over 5% year-over-year. And that second half, as reported recurring revenues will be flat to slightly up versus our first half results, driven by Euronext data center migration, which was included in our original guidance, and \$10 million of additional FX headwinds.

Shifting to Mortgage Technology on slide 7. Second quarter revenues totaled \$297 million. Recurring revenues, which accounted for over half of segment revenues and totaled \$160 million in the quarter, increased 18% year-over-year. These strong recurring revenues continue to drive outperformance versus an industry that experienced a 40% decline in origination volumes.

While the current macroeconomic backdrop is challenging for a number of our customers, this also presented an opportunity to have more constructive conversations around efficiency and automation across the mortgage origination workflow. And it's worth noting that second quarter unit origination volumes were similar to those in the second quarter of 2019.

However, second quarter 2022 revenues in our Mortgage Technology business were over \$100 million greater, or up almost 60% when compared to pro forma revenues in 2Q 2019. This is a clear testament to the continued automation and growth in customer adoption of our solutions across the origination workflow.

I'll conclude on slide 8. Through the first half of the year, we've grown total ICE revenue by 7%; adjusted operating income by 11%, including 200 basis points of margin expansion; and adjusted earnings per share by 12%, representing the best first half in our history. In addition, we've positioned our balance sheet for the acquisition of Black Knight while also growing our dividend and continuing to invest in future growth. As we look to the balance of the year, we're excited about the many growth opportunities in front of us, and we remain focused on creating value for our stockholders.

With that, I'll hand it over to Ben.

Benjamin R. Jackson

President & Chair-ICE Mortgage Technology, Intercontinental Exchange, Inc.

Thank you, Warren, and thank you all for joining us this morning. Please turn to slide 9. Rising inflation has created an interest rate environment many of our customers have not navigated in over a decade. Meanwhile, the continued war in Ukraine has triggered a reshaping of the global energy supply chain, creating new risks and uncertainties for market participants.

Importantly, we remain focused on connecting customers to our leading technology, mission-critical data and transparent and accessible markets to navigate these uncertain conditions. In our interest rate markets, we've seen record year-to-date volumes in our Euribor contract, as customers increasingly seek to manage risks associated with rising rates and Central Bank activity across Europe and the UK. This heightened risk has also contributed to strength in our equity derivatives complex, driving an 18% increase in volumes year-to-date.

Across our global energy markets, customers are navigating supply uncertainty alongside longer-term clean energy transition priorities. This will continue to introduce additional complexity and volatility to energy markets, which should drive greater demand for risk management. And it is our diverse global energy markets that provide the critical price transparency and risk management tools customers need to navigate both the near-term and long-term complexities.

Globalization of gas and the clean energy transition are trends that have contributed to the 43% average annual volume growth in our TTF gas business over the past five years, driving TTF to emerge as a global gas benchmark. Through the first half of this year, as a result of the Russia-Ukraine conflict, global gas markets have tightened significantly, increasing the demand for global liquefied natural gas in an uncertain geopolitical environment. This volatility and uncertainty has driven our global gas volumes to increase 31% year-to-date, including 49% growth in our North American gas business in the second quarter.

Commercial customers continue to rely on our markets to manage their risk, as evidenced by the record share in open interest we've achieved in our Henry Hub contract, surpassing 50% for the first time ever. Because we operate a global gas market with benchmarks across North America, Europe and Asia, we are well positioned to benefit from both the near-term volatility and the long-term secular growth trends occurring across these markets.

Despite these global energy concerns, governments, corporates and market participants remain committed to environmental policy to reduce carbon emissions. As such, valuing externalities, such as placing a price on pollution, carbon-free electricity and carbon sequestration and storage will continue to increase in importance. ICE has one of the largest networks of environmental products to value such externalities across the carbon cycle, including renewable fuel contracts, carbon allowances, nature-based solutions and renewable energy certificates.

The breadth of our complex, coupled with the growing importance of carbon price transparency, has contributed to the 19% average annual volume growth in our environmental complex over the past five years.

As the clean energy transition continues to introduce new complexities, uncertainties, and volatility to energy markets, our global environmentals alongside our gas and oil complexes will provide the price transparency across the energy spectrum needed to manage these evolving risks.

Turning now to our Mortgage business. I first want to touch on our pending acquisition of Black Knight as announced on May 4 of this year. As we said, when we made our announcement back then, we continue to believe the transaction will close during the first half of 2023. Since the announcement, and in accordance with our initial expected timeline, we have submitted the necessary regulatory filings. We are working with the FTC as they perform their thoughtful and comprehensive reviews of the proposed transaction.

Out of respect for the FTC's important work on this matter as we work with them toward regulatory approval, we do not intend to comment further on the transaction. But importantly, we remain very excited about the efficiencies the combined entities will bring to the end consumer and other stakeholders across the mortgage ecosystem.

As interest rates rise and mortgage origination volumes soften from recent record levels, our customers continue to turn to our mission-critical technology to operate more efficiently.

In the second quarter, we once again grew recurring revenues and outperformed the broader industry. Our focus during these evolving market conditions is, first and foremost, our customer. Customer conversations have increasingly centered on efficiencies and automation, and we continue to work with our customers to find the most efficient ways they can benefit from the breadth of offerings across our network.

For example, we recently made the decision to offer interested customers our base eClose solution included in an Encompass subscription, making it easier and cheaper for customers to adopt and benefit from the efficiencies of an electronic closing. The focus on efficiencies has also led to increased interest in our data and analytics products.

Leveraging machine learning technology, our analytics platform automates the steps in the loan manufacturing process and can save lenders thousands of dollars per loan by reducing manufacturing time and complexity. Year-to-date, our Data & Analytics business, which is made up largely of recurring revenues, has grown 21% year-over-year. We continue to see increased adoption of our analytics and new customers coming onto the platform with a host of new clients added this year alone, representing the likes of Chase, a number of leading independent mortgage bankers, and a top three homebuilder.

We are pleased that the value of our offerings continues to resonate with lenders, and we remain optimistic about the long-term opportunity to accelerate the analog-to-digital conversion happening across the mortgage industry.

I'll now turn the call over to Jeff.

Jeffrey Craig Sprecher

Founder, Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

Thank you, Ben. Good morning, everyone, and thank you for joining us. Please turn to slide 10. The first half of the year has been marked by rising inflation, rising interest rates and continued geopolitical and macroeconomic uncertainty. Our customers are navigating evolving risks and continue to rely on our data, technology and liquid markets to manage these risks.

In the second quarter, we once again grew revenues, grew adjusted operating income and grew adjusted earnings per share. These record-setting second quarter results reflect the strength of our network and the all-weather nature of our business model. Our strategy has always been to find unique and novel ways to apply data and technology to bring efficiencies and transparency to markets, whether it was moving energy trading to the screen, clearing OTC swaps, modernizing the technology powering the US equity markets or building data sets for the opaque fixed income markets.

As we've grown and diversified, we've broadened our opportunity set and our expertise has grown, providing new markets to grow into and importantly, new ways to provide innovative solutions to customers. We've leveraged our leading pricing and reference data to build new tools for the front office. We've married our fixed income data to newly expanded climate capabilities. And more recently, we combined our expertise in futures contract construction with our index capabilities and with our unique mortgage data to launch both the ICE Mortgage Rate Lock Index and its associated futures contract. These are just a few examples of the innovation that we can deliver with our expanded technology, data sets and expertise.

Our evolution has been intentional, diversifying across asset classes and geographies and increasing our mix of recurring revenues, with a goal of building a business that, today, generates compounding earnings growth. It's how we've grown our adjusted earnings per share for the past 15 years in every year that we've been a public company. The net result of our compounding earnings growth is the compounding growth in our dividend which we've grown double digits each year on average since we initiated it in 2013, and which we also grew 15% in this quarter.

Looking now to the second half of the year and beyond, we're excited about the many growth opportunities that are in front of us, and we remain focused on delivering innovative solutions for our customers while driving compounding growth for our stockholders.

I'd like to thank our customers for their continued business and their trust. And I'd like to thank my colleagues at ICE for their contribution to our record second quarter, following on the heels of our best first quarter, making this an unsurpassed first half result for our company.

With that, I'll now turn the call back to our moderator, Victoria, and we'll conduct a question-and-answer session until 9:30 AM Eastern Time.

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now start our Q&A session. [Operator Instructions] And our first question comes from Rich Repetto at Piper Sandler. Please go ahead. Your line is open.

Richard Henry Repetto

Analyst, Piper Sandler & Co.

Q

Yeah, good morning, Jeff and Ben and Warren. It's unfortunate we can't get any comments on the Black Knight acquisition because that's certainly on everybody's mind. But anyway, I'll ask about fixed income. Ben, you saw probably a nice uptick in fixed income execution. I think it's up 85%, up \$10 million just quarter-over-quarter. And I would suspect that's just the retail, your retail complex in munis picking up. And then one other question related to the fixed income. The recurring revenues went down quarter-to-quarter just by \$1 million. I suspect that's currency, but just wanted to get some clarification there as well.

Benjamin R. Jackson

President & Chair-ICE Mortgage Technology, Intercontinental Exchange, Inc.

A

Hi, Rich, I'm going to hand it over to Lynn to go through this.

Lynn C. Martin

President-NYSE Group & Chair-ICE Fixed Income & Data Services, Intercontinental Exchange, Inc.

A

Hi, Rich. Thanks for the question. You're right that we saw strong growth in our fixed income trading business this quarter. And as mentioned in our prepared remarks, that was driven off of strength in our muni trading business. And while volatility and the return of retail has certainly been a contributor, we're seeing our institutional efforts pay off.

As you are aware, over the last two years, we really focused on leveraging our market-leading assets in the muni ecosystem, including our data assets and our index business, which now serves as the benchmark for more than 60% of the AUM in this area, to build out the infrastructure to connect the institutional market to our muni execution platforms.

And in this quarter alone, we're seeing the benefits of that work manifest itself. And that institutional share within our muni execution platforms has doubled since 2020, enabling us to take share in the broader muni market. And finally, it's worth noting that our institutional business in munis has grown 250% year-over-year, a further sign that we're gaining share in this asset class.

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

A

And, Rich, hey, it's Warren. And On your question on the recurring revenues, you're right. That's FX; largely FX. There's also a little bit of AUM-related revenue in our ETF business. So as we saw during the quarter people shifting into treasuries and out of equities and some of the credit-focused ETFs, there's lower economics on those treasury ETFs that track our benchmarks. And so that was a little bit of a mix shift impact for us as well within the AUM portion of the index business.

The rest the index business on did really well during the quarter, up double digits; again, some of the subscription revenue, pure subscription revenue, if you will, in there. So really just kind of the macro dynamics taking hold there that's why you saw that slight sequential decline.

Richard Henry Repetto*Analyst, Piper Sandler & Co.*

Got it. Thanks for the update.

Q

Operator: Thank you for your question. Our next question comes from Alex Kramm at UBS. Please go ahead.

Alex Kramm*Analyst, UBS Securities LLC*

Yes. Hey, good morning. Lots of info you gave already on the mortgage side, but would like to dig a little bit deeper in particular on the recurring sides. So a few questions here. One, I don't know if you gave an update to the recurring revenue guide for that segment. So would be interested if that's still unchanged. But then more importantly, I think you mentioned that even like some of the challenges in the end markets, we've seen some bankruptcies, et cetera. So maybe you could give us an update what you're seeing in terms of customer losses. And maybe remind us how the revenue model is if there's any receipts, et cetera.

Q

And then sorry, lastly, maybe give us a little bit of the algorithm of growth that you've seen so far on the recurring revenues year-to-date between customer losses, but then also some of the up-sells that you guys were talking about earlier and then also this continued shift to moving the contract terms to more recurring. So, I know that's a mouthful, but hopefully, I get all of it.

Benjamin R. Jackson*President & Chair-ICE Mortgage Technology, Intercontinental Exchange, Inc.*

Yeah. That's a lot, Alex. This is Ben. I'll start, and Warren will also I'm sure add in here. So in terms of – I'll start with just the overall challenges in the environment. If you take a step back and you look at what we're building, we're building a business here that, in Mortgage, will weather a number of different market environments with an eye towards an 8% to 10% growth over the long haul. And why are we confident in our ability to do that is the reasons are, one, we have absolutely mission-critical software for these clients that we're providing. We have long-term contracts with our clients; four to five years with a high, high amount of retention in them. And we are heavily focused, as you've seen in our results, on shifting the revenue to more and more towards recurring, and we did it again this quarter on the backdrop of a 40% down market in terms of volumes, with 18% year-over-year recurring revenue growth in the business.

A

I think the other proof point you've seen in terms of being able to weather various market environments is our data and analytics line item, with that being up 36% last quarter alone. And one of the key inputs and drivers to that is our AIQ and Analyzer solutions. We're seeing tremendous uptake in that. We're seeing clients, now more than ever, just looking to adopt automation to automate as much of the workflow as possible to lower their costs. And the other proof point I'd put out there was a comment Warren made in his prepared remarks, in that if you look at Q2 of 2019, very similar volume environment to what we saw in this past quarter. We generated more than \$100 million of revenue on a pro forma basis. And that's – what enables us to do that? What enables us to do that is we do time studies with our clients. And clients that adopt our full automation suite, we see, are saving anywhere from \$570 to \$1,400 per loan that they're manufacturing when they adopt our solutions. So our ability to capture some benefit from that, from the efficiencies that we're providing to the industry has been tremendous.

In terms of the algorithm of growth on recurring revenue, it's really, it's a mix that we've described before. It's a mix of – there is some pricing in there. There is some sales to new clients. So I mentioned we had a good start of the year for sales on Encompass. We've had a good sales for the year on our AIQ business. And then also the other input is that shift, as customers are renewing, that shift of – even if we have to forgo some transaction revenue of moving more to subscription, we're continuing to do that and have a lot of success, and we're still early days. We're really in the first year of a codified program to do that. And with contracts with clients going 4 to 5 years in the future, we have a long runway to go.

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

A

And Alex, this is Warren. Just you asked about the guidance. So yeah, you're correct. There's no change to the guidance that we gave to start the year. We did assume, as we said back then, that there would be some headwinds from people potentially going out of business or maybe not as many new market participants. I'll say I'm highly confident that, to the extent that starts to play out, that's going to be a cyclical trend, not a secular one because I think if you think about the process for, and this is reiterating what Ben just said, if you think about the process of getting a mortgage, it continues to be very costly for the consumer. It's very inefficient. And we had the tools that are – and are building the tools that are really solving those problems. And so I don't know that probably doesn't help solve for 2022 EPS or 2023 EPS, but it should really factor into kind of the multiple people are thinking about when you're valuing the overall enterprise, [ph] I think at the end of the day, yeah. (29:12)

Alex Kramm

Analyst, UBS Securities LLC

Q

So you haven't seen a lot of impact from cancellations at this point, just to clarify.

Benjamin R. Jackson

President & Chair-ICE Mortgage Technology, Intercontinental Exchange, Inc.

A

Hey, Alex. It's Ben again. So we have seen a small, small number of lenders that have had some challenges and potentially go out of business, but it's a very small number that we've seen so far.

Alex Kramm

Analyst, UBS Securities LLC

Q

Very good. Thank you.

Operator: Perfect. Thank you for your question. Our next question comes from Kyle Voigt at KBW. Please go ahead.

Kyle Voigt

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Hi. Good morning. So last quarter, you spoke about energy traders moving away from using futures and towards options, at least for oil specifically. Just given the decline in oil's futures open interest throughout 2Q, it'd seem like that trend may have continued. Just wondering if you could talk about what you're seeing from commodity trading firms right now, trying to manage risk in an extremely volatile environment. Because, I guess, given the volatility we've seen in the market, it's a bit surprising to see energy volumes only up 3% this – or in the second quarter, and now seemingly kind of trending lower year-on-year into the third quarter. Thank you.

Benjamin R. Jackson

President & Chair-ICE Mortgage Technology, Intercontinental Exchange, Inc.

A

Hey, Kyle, it's Ben. So we have a confluence of issues that are going on around the world that are really unprecedented. And against that backdrop, we're pleased that our overall Futures business is up both year-over-year in terms of open interest and since the end of the year. And our Energy business is up in open interest since the end of the year, given all these events. And what are we looking at? We're looking at an inflationary environment. We're looking at a recession. You've got, in particular, in Europe, governments in Europe have to figure out the balance between sanctions against Russia, the impact of those sanctions against their civilians in terms of near-term price impact on energy, and moves towards cleaner energy.

So you've got that whole mix. And then you also have, in China, continued COVID lockdowns that are happening; and obviously, geopolitical tensions happening with China. So given all those issues, we believe that our marketplace has been set up as best as can be in the world to help clients navigate through all of these events, and they're utilizing us to do that. And I'll give a few examples.

So first, we have one of the most deep and liquid markets across that energy spectrum. So think of oil, gas, LNG, power and environmentals. So as clients are looking to move and switch between fuels, looking towards moving towards a cleaner environment, we are the exchange and clearing businesses that they're going to do that.

Second, in managing global supply shocks, you have deep – we have deep liquid global markets in each of those respective asset classes that I had mentioned with oil, gas, LNG, power and environmentals. And enable customers, because we have all these deep liquid points at the points of production and consumption, as clients need to hedge their risks using different risk management tools, we're very well positioned to do that.

And a perfect example is right now with Russia, stifling gas supplies going into Europe, we are seeing US step in and US providing natural gas via LNG cargoes going into Northern Europe. And given that we are the home to the vast majority of commercial traders that trade our US gas products, both Henry Hub and our basis markets, we're seeing clients use that to hedge those cargoes. And it's one of the inputs that's led to what I mentioned in my prepared remarks of the record we've seen in market share from a Henry Hub perspective as well as a North American gas and at a high as well in the global gas complex.

The third thing I'd point out is that we're engaged as much as ever with clients and governments around the world around these sanctions and as they're taking shape. And there's no question, it had some impact as there was uncertainty as to how issues would play out in products like gas oil, where Russian fuel oil is an input into that historically. As governments have made it clear that as of February of 2023, Russian fuel oil will no longer be provided and no longer be consumed in Europe, we've changed the specification on our gas oil contract. And now we've started to see open interest and volume starting to build again in gas oil calendar 2023 and beyond.

And then you pointed out our deep liquid options market. So options is clearly one of the most efficient ways to hedge geopolitical tail risk, as it helps to hedge a number of different scenarios that could play out. And in Brent, our volume in open – or volume in Brent options year-over-year is up 25%. So when you look at – when you expand your lens and look at the overall energy complex, we feel really good about how we're positioned.

Kyle Voigt

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thank you so much.

Operator: Thank you for your question. Our next question comes from Craig Siegenthaler at Bank of America. Please go ahead. Your line is open.

Craig Siegenthaler

Analyst, BofA Securities, Inc.

Hey, good morning, everyone.

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

Morning.

Craig Siegenthaler

Analyst, BofA Securities, Inc.

So my question is on Mortgage Tech. Origination revenues were down, not that surprising. But can you help us with some perspective on incremental downside from current levels? And also in terms of timing, when should we think these revenues will stabilize? And any perspective on that relative to what rates are doing would be helpful, too.

Benjamin R. Jackson

President & Chair-ICE Mortgage Technology, Intercontinental Exchange, Inc.

Hey, Craig, it's Ben. I'll start. So, and I'll basically reiterate some of the things that I said before. When you widen out what our strategy is within the Mortgage and Mortgage Technology business, our strategy here has been to move more and more of the revenue towards recurring to take some of that cyclical out of the business. And we continue to do that, and we've been successfully doing that.

In terms of predicting the rate environment and how that's going to play out, I mean, just look at how the rate environment's played out over the last week. It's been extraordinarily hard to see and be able to predict when this volume environment and stuff will settle down. But despite that, we're going to continue to make investments in the innovation that we're providing to our clients.

As we mentioned, a lot of the investments that we made is what fueled that \$100 million growth that we saw over the last three years in a similar environment to what we had in 2019. Those are investments – those investments are in and around everything that we've been doing on the closing side.

Our Simplifile business continues to gain market share and do very well. And then all of the innovation that we've been introducing on the data and analytics side with our AIQ platform as well as the automation of the underwrite platform, we see that those are all tailwinds that, regardless of the rate environment and the volume environment, that are growth drivers for us.

Jeffrey Craig Sprecher

Founder, Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

And this is Jeff. Let me just mention that a lot of our mortgage strategy is driven by the fact that we're trying to really position the company to be an all-weather name. That in all interest rate and macroeconomic environments that I can continue to end my prepared remarks on the same page that shows a graph of compounding earnings growth for shareholders. And having a US mortgage strategy gives us exposure. We own LIBOR, which is the London Interbank Index. We trade UK and EU interest rate futures. We have a credit default swap business that is completely global, that includes Russia sovereign hedging and companies across the globe. We have a fixed

income business that is truly global. We provide pricing data in almost every single country that has bond issuance. And we were relatively thin on having exposure to US interest rates, and moving into mortgage gives us that.

I also think, when we step back and look at the mortgage complex, the US mortgage complex and the way we're building the business is that, there is a demographic of millennials that is huge that are underserved by homeownership and there's been supply chain issues during COVID to meet housing. And we generally believe that any house that gets built will be sold and that there will be a mortgage on it, and that the supply chain issues are getting better and that the underperformance of building is increasing.

We also have seen, from our limited ownership of having mortgage assets, that cash-out refinancings happen when the value of homes go up, which is an inflationary input. And the one that I think a lot of people, and maybe is at the root of your question focused on, is the absolute interest rate, which leads to people refinancing in a declining interest rate market.

Long story short is there are a number of inputs into the housing market. We want to have exposure to the US interest rate environment. It's going to help us build an all-weather name. And even with a downturn in the number of US mortgages, we've had the best second quarter in our company's history.

Craig Siegenthaler

Analyst, BofA Securities, Inc.

Q

Great. Thanks for taking my question.

Operator: Thank you for your question. Our next question comes from Brian Bedell at Deutsche Bank. Please go ahead.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks. Good morning, folks. Thanks for taking my question. Just a two-parter on the environmental initiatives. So maybe, Ben, if you could just comment on – within the energy complex, obviously, we're seeing very good strength in nat gas. We did see a couple quarters now of sequential declines in the environmental. So the question there is, are customers substituting nat gas for some of the environmentals? Or is there something else driving that on the environmentals short term? And then the second part of the question is, if you could comment – I don't know, if this is may be Lynn, but on the acquisition of Urgentem and the overall climate data strategy, whether you're seeking to get more – to grow substantially in that business, linking that into the data more heavily into the environmental trading side.

Benjamin R. Jackson

President & Chair-ICE Mortgage Technology, Intercontinental Exchange, Inc.

A

Yeah, thanks, Brian. Yeah, I'll start, and then I'll hand it to Lynn for the second part of that. So as I mentioned before, there's this confluence of issues going on. In particular, in Europe and where we have seen some impact, so the balance between Russia and sanctions and the impact on civilians and the move to cleaner energy, in Europe, and specifically, we have seen some time and attention from traders that would trade things like our EUA markets, our European Union allowances, moving and shifting more towards just the acute energy issues that everyone's faced with right now. So we have seen some headwinds in that part. But the flip side of it is in North America, we've had a very strong business. It's continuing to do very, very well. North America is doing well in our

regional greenhouse gas initiatives, our California carbon allowances, our renewable fuels, our rec markets; each of these are doing very, very well. And we're continuing to invest.

So we recently launched biofuel contracts. They're doing well. We recently launched a global index, a global carbon index future as well. And we're getting more and more – on the index itself, we're getting more ETFs to license it, and on Futures, we're starting to develop there. We recently launched Texas wind and solar contracts. We recently launched nature-based offset contracts for the voluntary markets. So we see a lot of tailwinds coming in the foreseeable future. And you also have some other developments like State of Pennsylvania likely to join RGGI, and Washington State likely to put in their [indiscernible] (00:43:19) program for the first time. So we have a lot of good tailwinds there in North America. And I think what you're seeing in the overall complex is just a wait a little bit on the EUA market in Europe.

Lynn C. Martin

President-NYSE Group & Chair-ICE Fixed Income & Data Services, Intercontinental Exchange, Inc.

A

And thanks, Brian, for the follow-up question. So given the strength in our fixed income data, we're uniquely positioned to add transparency around ESG, really focused on the climate risk. Given our ability to tie alternative data sets into data sets that the market knows, you've seen us further position this offering.

In Q4, we announced the acquisition of risQ and Level 11, which enabled us to execute on the opportunity to turn physical climate data into actionable insights, starting with our muni bond service, but more recently expanding into the mortgage-backed securities market. And now we have the ability to offer parcel-level information measured by geographic coordinates in the US. And we have plans to expand that globally.

And then finally, as you note, we recently announced the purchase of Urgentem, which really expands our climate risk offering to include corporate transition risk, given its coverage of 30,000 public and private companies, which was an attractive data set to us to add to the climate offering.

Brian Bedell

Analyst, Deutsche Bank Securities, Inc.

Q

That's great color. Thank you.

Operator: Thank you for your question. Our next question comes from – sorry. Our last question comes from Michael Cyprys at Morgan Stanley. Please go ahead.

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

Q

Great. Thanks so much. I wanted to ask about the commodities franchise. Just curious how you guys are thinking about the longer-term growth drivers there. What factors ultimately drive volumes higher in your commodities franchise? Is it production of the underlying commodities? For example, some more oil and gas rigs producing more oil and gas are going to drive volumes higher over the long term. So just curious how you think about those growth drivers and the algorithm and how is that evolving? Thank you.

Benjamin R. Jackson

President & Chair-ICE Mortgage Technology, Intercontinental Exchange, Inc.

A

Thanks, Michael. This is Ben. And the way we think about it is we need to have, as I described earlier, that breadth of offerings of global offerings across each of the inputs into producing energy, as the statistics that are out there point to energy consumption doubling between now and 2050. And it's just what are the inputs into the

production of that energy are going to change and will change over time. And we believe with the breadth of offerings that we have across oil, gas, LNG, power and then the significant early start that we had in thinking about the environmental markets with the acquisition of the Climate Exchange over a decade ago, we're very well positioned to help clients navigate through that. So that's one input into it.

You do have a global focus on the reduction of carbon emissions around the world. And as I said before, with our environmental markets, we are very well positioned to help clients navigate through that. So those are two. I think, the third is that even though we have had some near-term headwinds in some of the products in Europe, in particular, the ones that have been at the center of this Ukraine-Russia situation, we continue to see user growth. So we continue to see more and more users taking data subscriptions and coming onto the platform to get visibility into what's happening in those markets, how those markets correlate or de-correlate at times to others around the world. So when we look at the underlying health of the market, looking at user growth, looking at open interests and looking at the global breadth of the offerings that we provide to our clients, those are all inputs into our growth outlook.

Michael J. Cyprys

Analyst, Morgan Stanley & Co. LLC

Great. Thank you.

Q

Operator: Thank you for your question. Our final question is a follow-up from Rich Repetto at Piper Sandler. Please go ahead.

Richard Henry Repetto

Analyst, Piper Sandler & Co.

Yeah. Thanks for taking the question. Just one last question on Mortgage. And this, I think, is more for Jeff. In the prepared remarks, it was mentioned about efficiency and automation and how the downturn is maybe emphasizing that more in the Mortgage segment. But I guess the question, Jeff, is I think people are really looking for the connection between Mortgage and how that can automate over time as you've done so in other markets. So the question is, how's it comparing given that mortgage has a longer workflow process, but what you're seeing so far in regards to the automation of the market longer term versus the other asset classes you've dealt with?

Q

Jeffrey Craig Sprecher

Founder, Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

Sure. That's a great question, Rich. Because I'm a company founder, I get asked to speak to entrepreneurs from time to time. And I always tell them, the best time to start a business is when there's a downturn. And not that having us moved into this space, you wish a downturn on anybody. But it's very, very hard to get people in finance. And I say this broadly, whether it's trading, clearing, data acquisition, it's very, very hard to get people in finance to change their behavior when they're making a lot of money and when things are going well.

A

And the best time to get people to think about making a change is when their businesses are under pressure. And Ben alluded to that a number of times in why our subscription revenues are doing well in the mortgage space. Broadly speaking – again, I appreciate the question. I know you've followed our company for many years, and you see us putting data and analytic tools into the mortgage market.

The mortgage market that we're talking a lot about is the cash market. You've seen us, and I mentioned in my prepared remarks, launch our first derivative product against a new index that we created. And so I think this space has a lot of inefficiencies throughout the entire – not just the manufacturing of the mortgage, but the way

mortgages are financed and traded and re-traded in the secondary market. Very poor data available due to the paper-based nature of the contract; difficult to regulate for regulators. Regulators think that there may be biases in the market. But without the right data, it's very hard to know. It's very hard to correct for the participants in the market, very expensive for consumers.

Banks that spend a lot of money to court a consumer tend to lose them when there's a refinancing or a change in that client's behavior. The market is not very thoughtful about keeping connectivity between those that lend and those that borrow. And all of that, I think, is fertile ground for us and may go for decades, honestly, as we build out the infrastructure. But at the core, we need a foundation of data and information that borrowers, that lenders and that regulators can all look at and use to make it easier.

I think I may have mentioned to you even that it's odd to me that you can buy a completely consumable good. You can buy toothpaste on an online platform. And when you go to check out, it'll ask you if you want to buy now and pay later, knowing that an algorithm underwrote your credit against no collateral. And yet, it takes almost two months for somebody to refinance a mortgage in a house that they live in, that has a foundation that's in the ground, that has an address that you can see from space, that is part of the Maslow's hierarchy of need of safety and security and will be abandoned by that person the last thing they do. And yet, we – an existing mortgage talking to their bank takes two months. It just – something is wrong in those equations.

And we could argue that buy now, pay later lending may be too generous, but certainly 60 days to do work with an existing client in an existing home just feels too long. And that is the challenge that, I think, we will tackle successfully and put the entire industry on a better footing.

Richard Henry Repetto

Analyst, Piper Sandler & Co.

Q

Got it. Thank you. That's helpful.

Operator: Thank you for your question. We have received a follow-up from Kyle Voigt at KBW. Please go ahead.

Kyle Voigt

Analyst, Keefe, Bruyette & Woods, Inc.

Q

Thanks for taking my follow-up. So question on the OTC and other revenue line in the Exchange segment. It was quite strong in the quarter. I just want to confirm that the increase that we saw there was really driven by collateral fees at ICE's clearinghouse or if there's something else that was driving that. And can you remind us if those collateral fees are entirely fixed basis point fees or if there is or will be any benefit from rate hikes we've seen in the US and EU?

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

A

So hey, Kyle, it's Warren. So in terms of the OTC and other, yeah, you're correct. The performance there has been collateral driven. That's largely from net interest income we're earning at ICE Futures, or ICE Clear U.S. and ICE Clear Europe. And so as collateral balances move around, and you've seen that over the course of this year, that's obviously going to benefit that particular line item.

In terms of rates moving higher, we do have a benefit from that. That's going to show up though more on the – well, it will show up on the CDS clearing side, because we do park some collateral and funds there at the Fed.

And so we do get a benefit as collateral moves up, but then also as Fed fund rates move up there. And so that's part of the strong performance you've seen in CDS there. So not in that OTC and other line; but in the spirit of your question, yes, there's a benefit from Fed rate hikes coming through over time.

Kyle Voigt

Analyst, Keefe, Bruyette & Woods, Inc.

Understood. Thanks.



Operator: Thank you for your question, Kyle. This concludes our Q&A session. I'd now like to pass over to Chair and CEO, Jeff Sprecher, for any final remarks.

Jeffrey Craig Sprecher

Founder, Chairman & Chief Executive Officer, Intercontinental Exchange, Inc.

Well, thank you, Victoria, and thank you all for joining us this morning. Let me again thank my colleagues for delivering yet another record quarter, and we very much appreciate and want to say thank you to our customers for putting your faith in us during the quarter. We'll look forward to updating you again soon as we continue to execute on these exciting growth opportunities that we mentioned on the call. And with that, I hope you'll have a great day.

Operator: Thank you, everyone, for joining today's call. You may now disconnect.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2022 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.