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Intercontinental Exchange, Inc. (ICE)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning, everyone, and welcome to today's ICE second quarter 2024 earnings conference call. My name is Drew, and I'll be your operator today. During today's call there will be a Q&A session. [Operator Instructions] .

I will now turn the call over to Katia Gonzalez, Manager of Investor Relations, to begin. Please go ahead.

Katia Gonzalez

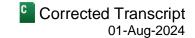
Manager-Investor Relations, Intercontinental Exchange, Inc.

Good morning. ICE's second quarter 2024 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 2023 Form 10-K, 2024 second quarter Form 10-Q, and other filings with the SEC.

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

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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; Lynn Martin, President of the NYSE; and Chris Edmonds, President of Fixed Income & Data Services.

I'll now turn the call over to Warren.

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

Thanks, Katia. Good morning, everyone, and thank you for joining us today. I'll begin on slide 4 with a summary of our record quarterly results. Second quarter net revenues totaled a record \$2.3 billion. Pro forma for the acquisition of Black Knight, total revenue increased by 7% versus last year, and is up 6% through the first half of 2024. Second quarter adjusted operating expenses totaled \$947 million, up 1% year-over-year on a pro forma basis. As a result of this strong performance, adjusted pro forma operating income increased by 11% versus the prior year, reaching a record \$1.4 billion, with record adjusted earnings per share totaling \$1.52.

Moving to the balance sheet. Adjusted leverage ended the second quarter at approximately 3.7 times pro forma EBITDA, a reduction from 3.9 times at the end of the first quarter and 4.3 times upon the completion of Black Knight in the third quarter of 2023.

Before I move to our segment results, I will note a few third quarter guidance items. We expect third quarter adjusted operating expenses to be in the range of \$955 million to \$965 million, or at the midpoint, an increase of roughly 1% year-over-year on a pro forma basis, with growth across our Exchange and FID segments, largely offset by expense synergies, which we now anticipate will exit 2024 at an annualized run rate of over \$150 million, up from prior expectations of \$135 million.

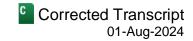
Relative to the second quarter, we expect the sequential increase to be driven by higher occupancy costs, slightly higher compensation, including an accrual for our strong performance year-to-date, and higher depreciation expense as revenue-related data center investments continue to come on line.

Moving below the line, adjusted nonoperating expense is expected to be between \$190 million to \$195 million, driven by lower interest expense, as we continue to direct free cash flows to reducing debt outstanding.

Now, let's move to slide 5 where I'll provide an overview of the performance of our Exchange segment. Second quarter net revenues totaled a record \$1.2 billion, up 14% year-over-year. Record transaction revenues of \$884 million were up 20%, driven by a 40% increase in our interest rate business and record energy revenues, which grew 33% year-over-year. This strong energy performance included a 30% increase in our rural complex, 32% growth in global natural gas revenues, and 64% growth in our environmental business. In addition, as of the end of July, open interest is up 20% year-over-year, including 21% growth in global interest rates and 25% growth in our energy markets.

Shifting to recurring revenues, which include our exchange data services and our NYSE listings business, revenues totaled \$362 million in the second quarter. Mid-single-digit growth in our broader exchange data services was underpinned by high-single-digit growth in futures data, in part driven by the continued expansion of our global energy and environmental network.

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In our listings business, SPAC delistings and the rolling off of 2021 admission fees offset a solid quarter for new listings. Through the first half, and despite only half of IPOs eligible to list, the NYSE has helped raise \$12 billion in new proceeds, welcoming 30 new operating companies, including 7 of the top 10 IPOs. Absent a sharp recovery in IPOs in the second half, we would expect listings revenues to trend around current levels through the balance of this year.

Turning now to slide 6, I'll discuss our Fixed Income & Data Services segment. Second quarter revenues totaled \$565 million. Transaction revenue growth at ICE Bonds was once again driven by strong growth across both corporates and munis, particularly our institutional channel, which grew double digits year-over-year. Record recurring revenues totaled \$457 million and grew by 5% year-over-year, slightly ahead of expectations.

In our Fixed Income Data & Analytics business, record second quarter revenues of \$293 million increased by 6% year-over-year and was driven by growth in pricing and reference data, another quarter of double-digit growth in our index business, and higher-than-anticipated onetime revenue.

Other Data & Network Services grew 5% in the second quarter, driven by our consolidated feeds business and continued strength in our oil and gas desktop solutions, both of which are products that we have invested in organically, enhancing both content and functionality.

Total ASV, or annual subscription value, exited the quarter up 4% year-over-year. Coupled with visibility into our sales pipeline for the balance of this year and assuming flat markets, we're on track to grow total Fixed Income & Data Services recurring revenue around the middle of our mid-single-digit guidance range, an improvement from 3% growth in 2023.

Please flip to slide 7 where I'll discuss the results of our Mortgage Technology segment. ICE Mortgage Technology revenues totaled \$506 million in the second quarter. Recurring revenues totaled \$387 million. Relative to the first quarter, revenue from new customers coming on line was offset by attrition within our Data & Document Automation product, or DDA, and was primarily related to non-Encompass customer on our legacy platform who was not utilizing DDA's full capabilities.

Despite this attrition, quarterly sales of DDA were the strongest since early 2022, including the signing of JPMorgan Chase, a current user of DDA on the origination side, to utilize the platform for their servicing business. A win that is a testament to past investments and synergies with MSP.

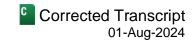
In addition, while the majority of customers continue to renew at higher minimums, similar to the last few quarters, we also saw customers renew lower. It's important to note that lower minimums are paired with a higher transaction fee, or price per closed loan, and that total contract value, assuming normal market conditions, continues to increase upon renewal.

Transaction revenues totaled \$119 million in the second quarter. While revenues related to Encompass, closed loans, applications, and MERS registrations increased in the low-single digits on a year-over-year basis, and increased well into the double digits sequentially, growth was somewhat offset by transaction revenues related to the aforementioned D&A attrition as well as lower default management revenues within our servicing business.

While the mortgage origination market is trending below historical levels and refinance waves can be difficult to predict, we are seeing encouraging signs that fundamentals are stabilizing.



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According to ICE Mortgage Technology data, while still below pre-COVID levels, the number of homes on the market continues to grow, up nearly 40% versus this time last year. In addition, tappable home equity hit record levels at the end of June, reaching \$11.5 trillion, with over 30 million homeowners with at least \$100,000 to draw down upon.

And we estimate that the number of borrowers with an incentive to refinance at current rates is at its highest level in two years, driven by slightly lower interest rates and a building backlog of higher rate purchase loans.

And so we continue to invest in product development and enhancement, and we continue to expand our existing network, all which further position our platform to realize accelerating growth when market conditions normalize.

In summary, we delivered a record first half. We once again delivered revenue growth, operating income growth, and free cash flow growth. And we continue to invest across our business to meet the needs of our customers and to position our business to continue to deliver consistent and compounding growth for our stockholders into the future.

I'll be happy to take your questions during Q&A. But for now, I'll hand it over to Ben.

Benjamin R. Jackson

President, Intercontinental Exchange, Inc.

Thank you, Warren, and thank you all for joining us this morning. Please turn to slide 8. In the more than 20 years ICE has been building its global energy platform, we have strategically positioned our energy business for the globalization of natural gas and the societal demand for a transition to clean energies.

Our long-term strategic direction and the value of our diverse, deep, and liquid markets contributed to record trading volumes across our energy complex in the second quarter. This was a key driver to another quarter of record energy revenues, up 33% year-over-year, and growing double digits on average over the past five years.

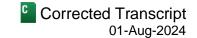
This strong performance is a testament to customers' continued confidence in ICE as the global energy hedging venue of choice. And with open interest continuing to set records into July, up 25% year-over-year, our energy complex appears poised for continued strength.

As the world evolves, market participants are constantly adjusting and weighing the price impact of an array macroeconomic, geopolitical, and regulatory forces, as well as externalities such as climate risk and the emergence of new renewable fuel sources. In essence, the price formation process is increasingly becoming more complex, and that additional complexity is driving customer demand for more precise risk management tools.

It is also driving demand for customers to come to a single place to manage risk across oil, gas, power, and environmentals, because of the efficiency and deep liquid markets that we provide. Across natural gas, the evolution of a global market is accelerating. This acceleration underpinned by the rise of liquefied natural gas, market-based pricing and, more recently, Europe's renewed openness to gas imports after the elimination of Russia as a key supplier, and the emergence of North America as a leading natural gas exporter.

Alongside this, as an important partner fuel, emitting about half as much carbon dioxide as coal to produce, natural gas continues to benefit from demand for cleaner fuels as countries move to reduce their carbon emissions. Additionally, the natural gas markets were historically regional oriented, each characterized by distinct

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pricing and supply dynamics. All these factors underpin the emergence of three key benchmarks for natural gas across North America, Europe, and Asia, with these becoming increasingly interconnected.

In Europe, our Title Transfer Facility contract, or TTF, is essential trading point for natural gas, just as Brent is the global benchmark for oil pricing. As a result, TTF is increasingly being used by global commercial participants, traders, and investors, with a record number of market participants in the second quarter that have doubled since 2019. This has been accompanied by volumes and open interest increasing, with both setting new highs in the second quarter, and each are growing double digits on average over the past five years.

In Asia, our Japan/Korea Marker, or JKM, reflects the spot market value of cargoes delivered into the region that represents a key demand center for LNG, underpinned by surging economic growth and increasing focus on environmental concerns. In 2023, global coal consumption reached its highest level in history, driven by continued growth in Asia. While coal continues to be replaced by natural gas and other cleaner energy sources in Europe and North America, it still accounts for 47% of primary energy consumption in Asia. In absolute terms, the coal-switching opportunity in Asia alone represents more energy than the total energy consumption in North America across all primary energy sources.

Today, the relationship between our TTF and JKM benchmarks drives global price formation. Reflecting this dynamic, ICE's JKM volumes have shifted from being roughly 50% composed of the JKM TTF spread, to closer to two-thirds. This dynamic also illustrates market confidence in relying on TTF as a benchmark for global gas and LNG prices as participants draw assurance from its deep liquidity, rather than relying on the Asian marker in isolation.

In North America, we began preparing for the liberalization of natural gas and its evolution beyond the Henry Hub benchmark more than a decade ago. Through close collaboration with our customers, we created ICE's electronic regional basis markets, a suite of precise risk management tools reflecting the commercially relevant supply and demand dynamics of 70 hubs across North America. These hubs are priced at a differential to Henry Hub to reflect US regional market conditions, transportation costs, and transmission capacity between locations.

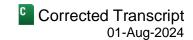
Alongside this, many market participants seeking to manage exposure to US natural gas price dynamics gravitate towards ICE's Henry Hub contracts for liquidity and the linkage to our exclusive basis markets.

As the global landscape of LNG exports, geopolitical forces, and shifts to cleaner energy sources all continue to evolve, we see these dynamics underpinning the strong momentum for this business. And we see these trends continuing to favor our growing global gas complex well into the future.

The importance of the evolution of energy markets extends to our global environmental markets, where the number of market participants has nearly doubled since 2019, setting an all-time high in the second quarter and increasing 18% year-over-year. At the same time, volumes increased 61% in the quarter, including growth across our regional greenhouse gas initiative allowances, California carbon allowances, as well as our EU and UK allowances. This strong performance has contributed to a 43% increase in environmental revenues year-to-date, including 64% growth in the second quarter.

In parallel across our power markets, volumes increased 32% in the in the first half, including 51% growth in the second quarter. With AI and data center build-outs expected to drive meaningful power demand into the next decade, our platform is uniquely positioned to capture this tailwind and help market participants manage this potentially volatile growth story given that ICE is the most comprehensive platform that offers US regional gas markets, alongside deep and liquid power and environmental markets.

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In summary, for market participants seeking to manage their risk, ICE's global energy platform offers over 1,000 futures and options contracts across natural gas, power, environmental, and oil markets, supporting the growing complexity of energy markets and uniquely positioning us to benefit from both near-term volatility and secular growth trends occurring across these markets.

Moving to our Fixed Income & Data Services business, our quality pricing and reference data combined with over 40 years of price history serve as the foundation for what is today one of the largest providers of fixed income indices globally.

Year-to-date, revenue in our index business is up double digits, with passive ETF assets under management benchmarked to our indices growing to a record \$616 billion through the end of the second quarter, from less than \$100 billion in 2017, and doubling since 2020.

In addition, we continue to see returns on past investments made to enhance content and functionality across our Other Data & Network Services business. As an example, within our consolidated feeds business, investments we've made to elevate and enhance our offering have directly contributed to the double-digit revenue growth in this area year-to-date.

With content from over 600 data sources, our offering gives customers access to a broad universe of low-latency financial information with full depth of market data. As firms seek more high-quality data from a range of different sources in a cost-efficient manner, our competitive and comprehensive offering stands to benefit.

While our consolidated feeds and index businesses are smaller components of our comprehensive data platform today, they're both well positioned to continue to grow and capture market share, while also serving an important role in our broader enterprise sales strategy.

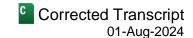
Turning now to our mortgage business. The secular shift towards the adoption of an electronic workflow continues. With a life-of-loan offering that spans from point of consumer acquisition all the way through to the secondary market, our platform is uniquely positioned to play a fundamental role. In the second quarter, we closed on 29 new Encompass clients, as customers focus on modernizing their infrastructure and on workflow efficiencies.

Building on wins announced last quarter such as Citizens Bank and Webster Bank, we are pleased to announce that Mortgage Solutions of Colorado has signed on to Encompass, expanding on the MSP win we announced late last year. We have also just signed another top 15 homebuilder in the US to Encompass and our DDA platform, making them the ninth homebuilder of the top 15 to join our community.

In addition, as mentioned last quarter, we've been integrating our tax, flood and closing fees data into Encompass, providing customers with more choice of service providers on our platform. In that regard, we're encouraged by the early traction in our cross-sell efforts across these offerings, executing on 200 data cross-sells to Encompass clients in the first half.

While these offerings are small components of our business today, these wins give us confidence in our ability to execute on the synergy targets that we laid out at the time of the Black Knight transaction. Along the same lines, following the first integration of Encompass to MSP by leveraging our Data & Document Automation platform for loan onboarding, straight from origination through to servicing, we are pleased to announce that we signed

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JPMorgan Chase onto this service. For our traditional DDA business, we also had 12 new wins to new and existing Encompass clients in the second quarter alone.

In summary, we are pleased to see the value of our platform and solutions are providing by our comprehensive technology platform, and it's resonating in the marketplace. With a touch point to nearly every market participant, we have connectivity to a customer base in need of the automation that our digital solutions provide.

As these new customers come onto our network, we have the opportunity to expand the customer relationship over time as they adopt additional solutions. Just as we've seen in our other markets, this flywheel effect gives us confidence that we can grow a business that today is only a fraction of the \$14 billion addressable market that's in the early days of an analog to digital conversion.

With that, I'll 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 9. At ICE, our mission for more than 20 years has been to drive transparency and create workflow efficiencies for our customers. We do this by building and operating mission-critical digital networks that leverage our technology, data and operating expertise. At the time of our IPO on the New York Stock Exchange in 2005, we were purely an energy exchange, offering only a handful of products to a narrow customer base.

Since then, our focus has been building a global platform that has the asset class breadth to enable us to pursue growth opportunities quickly and efficiently as they emerge around the world, and deliver all-weather results. While we're known for some of our larger-scale acquisitions, we have also completed a wide range of smaller bolt-on transactions. We reimagine these businesses by leveraging technology and crafting significant product development to drive organic growth, further bolstering the content on our networks, and accelerating our broadening into new asset classes.

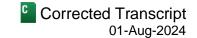
Operating marketplaces with strong network effects is a core expertise at ICE. And today, we do so across an array of asset classes, geographies and customer types. Optimizing the operation of financial services databases helps drive market transparency. And this transparency attracts additional participant, which in turn improves market liquidity. It's a virtuous cycle that continuously expands the network while strengthening the market.

Starting with our commodities business, in 2001, we acquired the International Petroleum Exchange, which brought us both proprietary content in the form of the Brent Crude Index, as well as connectivity to a broad network of energy traders and commercial customers.

Building on that foundation, we organically developed and grew hundreds of precise hedging instruments to serve the evolving needs of this commercial customer base. Today, the original Brent crude contract trades alongside our Midland WTI, Cushing WTI, Platts Dubai, and Middle East Murban grades of crude to additionally support over 800 related commodity products developed by ICE, giving participants the ability to manage the price of energy at the point of consumption or production around the world.

In 2007, we broadened our commodity footprint with the acquisition of the New York Board of Trade, adding globally relevant benchmarks such as sugar, cocoa, cotton and coffee. The NYBOT also brought us a clearinghouse, which today we call ICE Clear U.S.

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We were able to leverage NYBOT's clearing expertise and its web-based clearing technology to create ICE Clear Europe, the UK's first new clearinghouse approved in over a century. Starting from a simple idea, we have grown it into one of the largest clearinghouses in the world.

Our experience in building trading, clearing and settlement infrastructure highlighted for us the importance of analytics, indices and trade valuation services. And in 2015, we broadened our addressable market, moving into fixed income with the acquisition of Interactive Data Corporation.

IDC's pricing and reference data businesses are key to transparent price formation in the fixed income markets. They laid the foundation for our expansion into the adjacent index business, and the development of a comprehensive platform that today we've grown to nearly 500 unique institutional grade data products.

Another example of ICE leveraging our technology and infrastructure is our June 24 announcement to apply our proven track record, our expertise in central clearing and our connectivity to the fixed income markets to launch a clearing service for US Treasury securities and repurchase agreements.

The US Treasury and repo markets are critical to the global collateral management infrastructure, and we are significant users of these Treasury products across our six clearinghouses. A new SEC rule beginning in 2025 sheds light on the fact that no existing clearing offering is compliant with the rule, opening an opportunity for ICE. We look forward to working with our clients and the entire Treasury ecosystem to deliver on this innovation.

Following the proven playbook we've applied across futures and fixed income markets and by leveraging our expertise in building new technology, we have expanded into the US consumer interest rate markets, by developing a digital financing infrastructure for home mortgages.

In 2016, we acquired a majority position in the Mortgage Electronic Registry System (sic) [Mortgage Electronic Registration Systems] (00:27:56). We applied ICE's technology expertise to rebuild and modernize its platform and database, allowing us to buy the remaining business stake in 2018. We've since bought and built our way into further market exposure that culminated with the completion of our acquisition of Black Knight last year.

Today these assets are part of our broader ICE Mortgage Technology business that we believe is uniquely positioned at the center of an asset class that is moving from analog to digital.

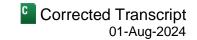
The breadth and depth of what we have assembled touches nearly every home mortgage in the United States, and includes the largest network of partners that every day ensure that our thousands of customers can efficiently engage, originate, close, finance, value, and sell consumer home loans.

Our approach to overlaying organic growth on our strategic acquisitions is deliberate and comprehensive, allowing us to construct a platform that not only generates strong returns and healthy cash flows, but is also positioned to continue to leverage our core strengths to generate future growth.

Our first half results are another example of strong execution of this proven strategy. We delivered record revenues, record adjusted operating income, and record adjusted earnings per share.

These record-setting results reflect the strength of our network and the all-weather nature of our business model. As we've grown and diversified, we've broadened our opportunity set. And our expertise has grown, yielding new markets to grow into, and new ways to deliver innovative solutions to our customers.

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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.

Looking 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, all-weather growth for our stockholders.

Before I end my prepared remarks, I'd like to say thank you to our customers for their business and for their trust. And I'd like to thank my colleagues at ICE for their contribution to both the best single quarter and the best first half in our company's history.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. We will now start today's Q&A session. [Operator Instructions] Our first question today comes from Craig Siegenthaler from Bank of America. Your line is now open. Please go ahead.

Craig Siegenthaler

Analyst, BofA Securities, Inc.

Q

Thank you. Good morning, everyone. Our question is on the fixed income business. So we've seen a nice acceleration in fixed income ASV this year. What's driving this? What channels are seeing the most growth? And to what extent is the growth stemming from pricing versus cross-sell versus new clients?

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.



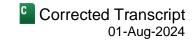
Hey Craig, I'll start that one off. It's Warren. So it's been pretty broad-based across the recurring revenue base within that segment. And so we've seen some improvements in the PRB business.

As you know, last few years the fixed income ecosystem has been facing a number of headwinds given the sharp rise in interest rates. And so as we've seen that taper off, we've seen a reengagement from that customer base, which has helped on the new sales front, and we've seen some improvements there. Certainly over the last couple quarters it's helped.

The other area that's been helpful as well is on the index side, where the last year or so we had to face some headwinds there, largely just due to markets and things of that nature, where we've seen that now reverse. And obviously, fund flows into fixed income funds as well has been a helpful component of that from a growth perspective.

And then I'd also say within the other data network services, within our desktop business, our feeds business, which you heard us highlight, we've seen some really strong trends there as well. And that's really a result of some of the investments we've made over the last number of years to get those into better position. So we've been pretty pleased with that progress. I think we certainly did face some headwinds last year at a macro level. And as we've seen those abate, you've seen improvement in the revenue trends and the ASV trends.

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And I think one thing that ASV doesn't necessarily always pick up, or doesn't pick up – I mean, it's a good metric; it's not perfect – is that sales that we've made that have not yet implemented. And so as we mentioned last quarter, we do think on the connectivity side related to some of our data center investments, we'll see some of those sales start to implement in the third and the fourth quarter that will be a little bit of a help as well. And so we're encouraged by that as we look into the back half.

Operator: Our next question comes from Ken Worthington from JPMorgan. Please go ahead.

Kenneth B. Worthington

Analyst, JPMorgan Securities LLC

Hi. Good morning. Thanks for taking the question. You mentioned that you expanded the Chase relationship as another win this quarter. So maybe first, how does the institutional pipeline look for Encompass in MSP? Is it building? Is it stable? Or is ICE just really working through that existing pipeline?

And then second, ICE has a number of larger mortgage wins that you've announced over the last 18 months. What is the magnitude of the impact we should expect as these clients go live on transaction and recurring revenue over the second half of this year or maybe into the first six months of next year as these new larger relationships are launched?

Benjamin R. Jackson

President, Intercontinental Exchange, Inc.

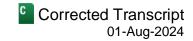
Thanks Ken. I'll start and then Warren will pick up on the second part of that question. So we're very pleased with the expansion of the relationship with JPMorgan Chase. Obviously they're – been a long-time MSP client. They've added Encompass across all channels and have added DDA for the origination side, and now are leveraging DDA as that integration point to automatically onboard loans from Encompass into MSP. So that's a great win for us, and it's really in line with the vision of why we pulled together all these assets, is to provide the efficiency that these platforms provide for institutions.

And in terms of the funnel behind that, we continue, as you've seen each quarter, announcing new wins. And whether it's MSP wins for clients that have historically been on Encompass and we've had a great relationship with, or the other way around: clients that have been on MSP that are signing on to Encompass. We're very pleased with the success that we've had out of the gate, and we continue to see that funnel building.

And it's building in a couple of different ways. It's building from clients that realize they don't need to have their own in-house bespoke systems. That's oftentimes what we're replacing, in particular, on the very large institutional side for this. And really, the secret sauce should be how do they cross-sell to their clients and understand more about that overall relationship across the institutional enterprise that those banks have with the clients, as opposed to coming up with some unique way to run a loan origination system or a servicing system. So that funnel continues to build. We feel good about that on both sides, on both MSP and Encompass.

And with a number of the wins that we've had in -- that you even referenced in your question, we have a lot of those going through implementations. And as you can appreciate, we have a large backlog of those implementations. They're going very well. They just take time. They're very complex. There's a lot of compliance aspects in and around mortgage. In fact, in most areas that these banks work, mortgage is probably one of the most heavily compliance – areas of compliance that they have to comply with. So those implementations take time, and I'll hand the second part of it off to Warren.

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Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

Yeah, so Ken, on your question around the size of some of the wins and maybe the cadence of how those will come into the run rate, so I think, look, back in the fourth quarter we talked about revenue synergies around \$30 million. I can tell you that we've continued to add to that number and made progress against that number. That's something I'll probably give more on an annual basis in terms of the actual number. But I can tell you that we have been making progress over the last couple quarters there.

Like I said back then as well, we wouldn't expect and we don't expect a material impact this year from those revenue synergies. MSP products, Encompass, they can tend to take 6 to 18 months, if not longer, particularly for ones that are larger, which is what a lot of these wins that we've talked about are. And so it does take time to implement that technology, and that's part of why you're seeing those take some time to get into the run rate. And so we'll expect those to start to come in 2025 and 2026, as obviously those companies come on line and that will flow into recurring revenue at that point.

Operator: Our next question is from Dan Fannon from Jefferies. Your line is now open. Please go ahead.

Daniel T. Fannon

Analyst, Jefferies LLC

Thanks. Good morning. So another question on mortgage. I was hoping you could flesh out a little bit of what transpired, I think, in the quarter with you talked about a client leaving. So we wanted to get a bit of an update more broadly on the kind of renegotiations and where you are, you think, in your overall customer base for the new minimums. And as you think about the recurring revenue mix, I guess, do you anticipate more fluctuations and/or fits and starts as you go through that process as we look prospectively from here?

Benjamin R. Jackson

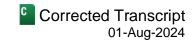
President, Intercontinental Exchange, Inc.

Sure. Dan, this is Ben. I'll take this one. So I'll start with the second part of it on the renegotiations, and Warren mentioned it in his prepared remarks as well. We continue on the Encompass side to see the majority of the clients, so the number of clients that are renewing are renewing at higher subscriptions. And when that happens, we have a lower per-close loan fee, is typically the trade-off there. But we do have a percent that we've seen in similar, the last few quarters, that are choosing to renew at lower minimums, lower subscription fees. And the trade-off there is higher per-close loan fees. And as the market normalizes, the algorithm that we have is the total contract value going to go up. And that's what we're consistently targeting and executing against. So we're seeing that trend in terms of renegotiation continue. And it's been very, very much in line with what we've seen in past quarters.

On the attrition that Warren mentioned in his prepared remarks, that was on the DDA side. So with that Data & Document Automation platform, this is a platform that Ellie Mae acquired a number of years ago. And there are some legacy clients on that platform that don't utilize the automation capabilities that that platform has in line with Encompass or with MSP. They're using it in isolation, and that's where we saw the attrition happen with one client that Warren referenced.

The other opportunity that we see here though, is that we had another client that was very similarly situated to that that one that we engaged with very deeply and convinced them to change their loan origination provider from where they were in the past to moving over to Encompass, and couple that with the DDA platform. And we were successful in doing that. And in the second quarter, that's the Citizens Bank win that I referenced, was exactly

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that. We renegotiated a DDA contract, brought them on to Encompass, and have a much more longer-term strategic relationship with the client.

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

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And then, Dan, just a comment on recurring revenue. I think that starts to stabilize around here as we move through the back half. Obviously the market environment is weighed versus what we were thinking later last year when we spoke to you guys about — or early this year when we spoke to you guys about what we thought the recurring revenue would look like for the year. I noted a few points in my script supporting that we've seen some stabilization in those fundamentals.

And actually more directly related to us, through the first half of this year, we've seen an increase in loans originated on Encompass. We've seen an increase in apps on Encompass. And that's encouraging. That's the first time we've seen a year-over-year increase since early 2021. So some early signs that things are stabilizing. And I think a more stable market's going to give people a little bit more reason to start to think about the future, plan for the future, and start to invest in some of these products, like the DDA, which I said had its best quarter in two years for sales.

And so, look, M&A like we had a few quarters ago or last quarter, cancellations like we had this quarter on the DDA side, that can be tough to predict. But, for instance, that is – I think, as Ben said, there's a small amount of customers that are on DDA that don't use Encompass or MSP now. So attrition like we saw this quarter in that way seems less likely to be a headwind moving forward. And also, as I said, we won't expect to see some of those revenue synergies come in till next year. So, at this point, it feels like we see some stabilization but – and looking forward to 2025 as those start to hit.

Operator: Our next question comes from Kyle Voigt from CBW (sic) [KBW] (00:42:30). Your line is now open. Please go ahead.

Kyle Voigt

Analyst, Keefe, Bruyette & Woods, Inc.



Hey. Good morning. Maybe just sticking on Mortgage Tech. In the past, you've spoken about this significant data exhaust that's generated by this combined Mortgage Technology business. I guess with Black Knight now having been closed for, I guess, roughly 10 months, can you just speak a bit more about how your thinking has evolved around the best ways to potentially monetize this mortgage data, whether that's new product launches or other areas of opportunity.

Benjamin R. Jackson

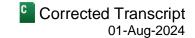
President, Intercontinental Exchange, Inc.



Thanks, Kyle. This is Ben. So we see a number of different opportunities in this area, and I'll describe a few. Some that are very near term, and I mentioned this in my script as well, is that we saw an opportunity to take a bunch of datasets that Black Knight's data business had and integrate them onto Encompass.

We had that as part of our plan, even before we closed, as part of the integration strategy. That was one of the first things we were going to do. We executed on that. We just closed last September, got all those datasets onto Encompass for the first time. And in the first half of this year we've had 200 cross-sells of flood data and fees, datasets that traditionally were not on Encompass to our Encompass customer base. And there's a long runway

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to go on that. When you think of 3,000 Encompass customers and each of those datasets being cross-sell opportunities, there's a good runway ahead of us on that.

The second thing that we executed on and we're very pleased with is there's a dataset within Black Knight that are AVMs, so they're valuations on homes. And with the trend right now, with the amount of equity built up in homes, we've built a straight-through service around home equity lines of credit that take our AVMs, so you can take the current valuation on a home. The servicer can take that information, plus the data they know on the customer, present an offer for a home equity line of credit for a client, and then feed that information directly into the origination platform, as our Encompass platform handles home equity lines of credit seamlessly. And then as those loans are originated, pass those straight through into servicing. So the AVMs are definitely a key component of that, and home equity lines of credit are something that we're seeing are very popular right now.

Longer term, one of the things that we did strategically when we integrated these businesses is we took that Black Knight data business, and we moved it into our Fixed Income & Data Services business with Chris. And we just did that at the beginning of this year. The reason for that is we believe there's a lot of datasets within Black Knight that traditionally have been sold to mortgage-specific companies that have a lot of capital markets applicability. And those are datasets like they're called McDash. There's another one called AFT and another one, eMBS. And all of them, in a sense, are predicting prepayments on loans or portfolio of loans or portfolios of mortgage-backed securities.

And obviously, with our Fixed Income & Data Services business, we have a very significant business in pricing and reference data around mortgage-backed securities. We have a whole community of customers with thousands of them that consume our Fixed Income & Data Services products. And that's where we're introducing the products as they are today, but also engaging with clients to get feedback on new services that we can build for more of a medium-term opportunity. So those are some of the ones off the top of my head.

Operator: Our next question comes from Chris Allen from Citi. Your line is now open. Please go ahead.

Chris Allen

Analyst, Citigroup Global Markets, Inc.

Good morning, everyone. Thanks for taking the call – question. Sorry. I was hoping we could dig into the growth in energy OI. Seen really impressive growth since the middle of 2023. Any color just in terms of whether it's new commercials coming on, hedging by existing market participants taking off maybe impacted macro funds? And also, could you dig in a little bit on North American options [ph] OI (00:47:06), which is up very nicely, what's been driving that? Does it have to – is that factoring into the complexity – increasing complexity which Ben referenced earlier?

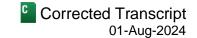
Benjamin R. Jackson

President, Intercontinental Exchange, Inc.

Thanks for the question. So you've heard us over a number of different calls and a number of different years point to the fact that the major difference that you see in the way that we've developed our energy markets, whether you're talking oil, gas and also the products like power and environmentals, we have focused on the commercial customer at the core.

And that's why we've built out, and not dependent on just one benchmark for the growth of our business, we've built out thousands of hedging products around the world across oil, gas, power, emissions, is that our customers

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want to be able to hedge at the point of production or consumption, as Jeff referred to even in his prepared remarks today.

And it's those customers that we've really been building open interest around our platform. And obviously, as open interest builds, as liquidity builds in platform, that's when you start to get also people that are taking more of a directional view on the market start to come in as well. But the leading people are the commercials.

And when we talk about even the success that we've had in our natural gas markets, that started with a heavy, heavy commercial base. Our sweet spot in the US has been the regional basis markets. Customers utilize those, and when they're trading that as a package with Henry Hub, that's what's helped to build out our Henry Hub market, because they want to do both of those trades in the same location.

The same is true with the development of TTF. And now with US natural gas moving around the world in the form of LNG and Europe consuming more US LNG than from any other source. And then also that coal switching opportunity that I mentioned in my prepared remarks, across Asia, being the size of North America itself, all of this is pointed at the commercial market participants that started in JKM and TTF, has built up open interest in those products. And then we've obviously had directional traders flow in behind that. So that's a little color on that front.

And on the options front, we're pleased with our options growth across the entire portfolio. Today there's a lot of risks that people need to manage. You've got geopolitical risk with multiple wars going on. You've got political risks with elections pending and what that's going to mean energy policy. And you have financial risks around what's going to happen with interest rates and all of these have an impact. And options could be a very efficient way to hedge and manage risk in those situations.

Operator: Our next question comes from Ben Budish from Barclays. Please go ahead.

Benjamin Budish

Analyst, Barclays Capital, Inc.

Hi. Good morning and thanks for taking the question. Ben, I was wondering if you could unpack the Asia opportunity a little bit more, and maybe talk about the historical correlation between consumption of electricity and energy and trading volumes. When we look at the European data, it looks like consumption of natural gas is pretty flat over a long period of time, but your volumes are up very meaningfully over a similar period of time. And so presumably, a pickup in consumption really anywhere would be quite positive. But how do you think about the correlation? How much does that, could that drive volumes versus things like price volatility? How much of those relative factors matter? Thank you.

Benjamin R. Jackson

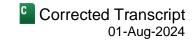
President, Intercontinental Exchange, Inc.

Sorry. Thanks, Ben. Yes, those dynamics definitely matter. When people are looking at, and whether you're a power producer or a consumer, the mix of things that you need to think about in trading it is not only the price of power itself, but also what's producing it, whether it's coal or switching to natural gas as a much cleaner fuel. And then also the dynamic around the world of also having to put a price on carbon emissions that are also a part of that.

So traders that are thinking about those, hedgers that are thinking about their exposure in the energy markets have to think about all four of those dynamics. And we, for many years, have thought, and from engaging with our



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clients, that that's the mix of risks that need to be managed. And that's why we've built out a business that includes all of those aspects to enable traders to hedge and manage that risk in one platform.

And I will even use the US as a good example. If you look at the US, there has been a shift towards cleaner sources in gas. It's clear, if you talk to any of the analysts out there, that power consumption is going to continue to grow in the US. And one of the underlying reasons for that is data center demand.

Analysts estimate that US power is expected to increase – power demand is going to increase over the next decade. And data center demand alone associated to that is likely 19 gigawatts last year, to growing to up to 35 gigawatts by the end of this decade.

And then underneath that, you have natural gas demand that's linked to power generation, that today is around 35 billion cubic feet. It's expected from analyst estimates to grow to 45 billion cubic feet by the end of this decade. And then obviously you have markets like our environmental markets that continue to do well, like our REGI markets and our California carbon emissions.

So I think that's a good story to tell, because we see that story developing in Europe. We see that story developing in Asia. And the mix of having US basis markets, power, Henr and environmental markets all in one place and enabling customers to hedge and manage this risk in an efficient basis is what enables us to do this and provide those services to clients.

Operator: Our next question comes from Alex Kramm from UBS. Please go ahead.

Alex Kramm

Analyst, UBS Securities LLC

Yes. Hey. Good morning, everyone. Just wanted to come back to mortgage and attrition. I know sometimes when there's M&A in the space, you win some, you lose some. Not sure if you can go into details of the Mr. Cooper Flagstar acquisition that was announced, I think, last week. I think Flagstar's a top 10 servicer and top 25 originator, I think, on servicing their clients.

And I think Mr. Cooper is going in another direction, so maybe – from you guys. So just maybe talk about that one given that it's a sizable deal in the industry. And obviously we saw this quarter, some of these deals can have an impact on your numbers. Thanks.

Benjamin R. Jackson

President, Intercontinental Exchange, Inc.

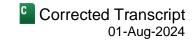
Thanks, Alex. I'll start. So in the in particular, in the servicing business, you do have mortgage servicing rights that trade and move between clients. And we're a beneficiary of those mortgage servicing rights move to servicers that are on MSP. And it's the opposite if they're not.

We, and I think I mentioned this on the last call, the first half of this year we did see some impact on the servicing side of the business where there was a major bank had been very public about the fact that they were exiting their correspondent business and selling those MSRs. So that had some headwinds to us. That hit us the first half of this year. It's really an uncontrollable risk for us, but it was a temporary phenomenon that we think has played out.

We're also a beneficiary of these when they happen. And examples that I've brought up are when Two Harbors at RoundPoint came together, there's a bunch of loans that came onto MSP associated with that. And then when



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JPMorgan bought First Republic, JPMorgan's obviously on MSP and those loans came to us. So these tend to ebb and flow on us and off of us.

On the Mr. Cooper question that you had, we have a deep relationship with Mr. Cooper. They've been a customer of ours for a number of years on Encompass. They also use our foreclosure and bankruptcy solutions within servicing. So we have a good relationship with them and we look forward to seeing what their plans are in the future. But as it relates to customers leaving us and choosing a different platform, we're not seeing that type of impact.

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

And then Alex, just to give you on Flagstar [indiscernible] (00:56:38) total ICE Mortgage Technology revenues.

Alex Kramm

Analyst, UBS Securities LLC

Thank you.

Operator: Our next question comes from Alex Blostein from Goldman Sachs. Your line is now open. Please go ahead.

Alexander Blostein

Analyst, Goldman Sachs & Co. LLC

Hi, good morning. Thanks for the question. So maybe just zooming out on energy for a second. Revenue growth up 30% or something like that this year. OI is trending something similar to that. I think we talked a lot about some of the structural tailwinds that are supporting this growth. But as you guys zoom out and you extrapolate this further out, how do you think about the energy revenue growth algorithm over the next couple years? And is 2024 a good base in your view to build off of? I know the market tends to mean revert some of the dynamics in the trading space, but it doesn't feel like that's exactly what's happening here. Thanks.

Benjamin R. Jackson

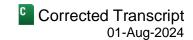
President, Intercontinental Exchange, Inc.

Hi, Alex. It's Ben. Thanks for the question. What we always look at is the health of open interest across our markets as the barometer for, and really the predictor for future volumes and future volume potential for our markets. And if you look across our marketplace now, overall across all of our futures business, open interest versus last year is up 20%.

In energy, it's up 25%. So to us, those are great indicators that we're doing the right things, partnering with our customers, developing out all of these very new innovations and new products and more precision in the way that customers can manage and hedge their risk around the world. The development of new products in oil have been really exciting for us with what we've innovated with our HOU contract, pricing Midland WTI basis Houston, which is now flowing into dated Brent. And that market is growing phenomenally for us, up 400% in open interest.

You look at the development of our Murban contract that we innovated three years ago, pricing Middle Eastern crew going to Asia. ADVs in that contract are up 160%. All of our swaps to futures markets, these are all refined products and basis markets continue to grow really nice for us in oil. In natural gas, we continue to innovate and continue to introduce new contracts, new LNG contracts. We've talked about the development of JKM, the development of our TTF contract. All of these, in our minds, create a flywheel effect because anybody that's

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trading in these energy markets wants to put a price on oil, power, gas, emissions, and it's so much more efficient for them to do that all in one place. So I'd point to the innovation that we've had. The open interest growth there has also fed into growth of our benchmark contracts as well.

Operator: That concludes today's Q&A session. I will now hand back over to Jeff Sprecher for closing remarks.

Jeffrey Craig Sprecher

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

Well, thank you, Drew, for managing the call. And I want to thank you all for joining us this morning. And we look forward to updating you again very soon as we continue to innovate for our customers and build our all-weather business model to continue to drive growth. With that, I hope you'll have a great day.

Operator: That concludes today's call. Thank you all for your participation. You may now disconnect your line.

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