28-Sep-2023

Intercontinental Exchange, Inc. (ICE)

Acquisition of Black Knight, Inc by Intercontinental Exchange, Inc Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, everyone, and welcome to the ICE & Black Knight Closing Call. My name is Seb, and I will be the operator for your call today. There will be an opportunity for questions at the end of this call. [Operator Instructions]

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

Katia Gonzalez

Manager-Investor Relations, Intercontinental Exchange, Inc.

Good morning. Thank you for joining today's investor call to discuss the successful close of our acquisition of Black Knight. Today's presentation can be found in the Investors section of theice.com. It 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 our description of the risks that could cause our results to differ materially from those described in forward-looking statements, please refer to our 2022 Form 10-K, second quarter Form 10-Q, the registration statement on Form S-4 and other filings with the SEC.

With us on the call are Jeff Sprecher, Chair and CEO; Ben Jackson, President; and Warren Gardiner, Chief Financial Officer. With that, I'll now turn the call over to Jeff.

Jeffrey Craig Sprecher

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

Good morning, everyone, and thank you for joining us. Today, we're here to discuss the successful completion of our acquisition of Black Knight. I'll begin on slide 4. ICE has been following a roadmap to become an all-weather growth generator that can provide a useful platform in variable economic conditions.

We sought to build a portfolio of products and services that provide exposure to managing market momentum forces without taking on idiosyncratic risks. Risk management products that are imperfectly correlated to one another and that allow us to provide a larger platform to our customer base for them to use to manage risk in many economic environments. ICE services thousands upon thousands of customers located domestically and abroad, bridging traditional financial services companies to non-traditional fintech startups from buy-side to sell-side, supplier to manufacturer, long-term investors to short-term liquidity provider, broker to principal and many more.

Since our founding, our strategy has remained consistent. Bring transparency, efficiency and standardization to markets with a mission to digitize the analog, starting with commodity markets and then expanding into equity markets, corporate interest rate markets, government interest rate markets, and our most current investment in the consumer interest rate markets. This evolution has been intentional.

ICE entered the market for corporate credit by launching infrastructure for the global credit default swap market during the financial crisis of year 2008. This move positioned us squarely to add risk management tools for those exposed to global corporate borrowing. We've significantly expanded our position in the corporate interest rate markets in multiple ways, including becoming one of the largest and most trusted providers of data and indices that surround corporate borrowing.

ICE entered the market for government credit in 2013 by acquiring the LIFFE Exchange in London and its risk management platform used to hedge government credit risk in Europe and the UK. We subsequently combined and built out the Muni Center with Bond Point, expanding our access to markets and risk management tools for government credit in the United States in the form of municipal debt. And we continue to build out our platform for the management of global government credit with the digitization of unique environmental impact information.

ICE entered third leg of the credit markets, consumer credit with the acquisition of MERS in 2016. We bought and built our way into further exposure that culminated with the completion of our acquisition of Black Knight. Together with Black Knight, ICE is well-positioned to improve the execution and subsequent settlement and servicing of US home mortgages, the major credit exposure for most US consumers.

The breadth and depth of what we have assembled touches nearly every home mortgage in the United States and is a platform that we believe will enable us to provide the foundation for improving risk management in this major consumer credit market. We've already launched several data and hedging tools on our platform for customers to better manage consumer credit risk, which we can greatly enhance with the addition of Black Knight.

ICE now has strong positioning to provide significant risk management solutions in all three credit markets: corporate, government and consumer. And we've assembled this vast array of interest rate-related financial management tools to assist our customers in managing through differing rate environments.

Our interest rate products complement our equity and investment management portfolio that is centered around the New York Stock Exchange. These, combined equity and debt platforms, are correlated to global central bank, legislative and regulatory actions, and the economic results that follow such acts of man.

We've coupled this large suite of financial tools with a global commodity risk management offering of more than 1,000 products and services to help our customers navigate supply chain issues and acts of nature. Our combined infrastructure helps our customers to manage inherent economic risks, whether they be manmade or nature-based, across varying economic conditions.

In total, we built and assembled a platform to execute and settle and manage the risk for producing commodity raw materials, the equity capital needed to seed the businesses to transform them, and the borrowing required by builders and their clients to fund the growth of an economy.

Financial reporting requirements dictate business segments that often cannot clearly display the nature of our all-weather risk management portfolio. We've included slide 5 to better illustrate our intentional and thoughtful diversification.

ICE evolved from a company with a narrow customer base on a platform with largely transaction-based revenues to a platform with a high percentage of recurring, compounding subscription revenue across a wide array of global clients.

We've also evolved from being exclusively a tenant of third-party data centers to the operator of an ICE-managed global proprietary cloud that touches financial services players across the world. Our positioning to provide a platform to manage through economic cycles has been intentional and is aimed at delivering all-weather results to ICE shareholders, results achieved in varying cyclical interest rate, equity investment and commodity production environments.

I'll now turn to Ben, who intends to discuss some of the business attributes related to our integration of Black Knight.

Benjamin R. Jackson

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

Thanks, Jeff, and thank you all for joining us this morning. Please turn to slide 6, where you'll find a summary of our strategic vision, which I'll walk through beginning on slide 7. When we announced the acquisition of Black Knight in May of 2022, we articulated a combination that would both strengthen and accelerate our mission to reduce friction and customer costs across the mortgage workflow.

Over the course of the last 16 months, our confidence in that strategic vision has only increased. ICE's journey to help automate the mortgage workflow began back in 2016 when we purchased a majority investment in the Mortgage Electronic Registry System or MERS, a platform that today helps track the ownership and servicing rights of roughly 85% of outstanding mortgages in the United States. We applied ICE's technology expertise to rebuild and modernize its database, allowing us to buy the remaining stake in 2018. Our 2019 acquisition of Simplifile then added a settlement network constructed over two decades and one that today connects over 30,000 settlement agents to 2,500 counties across the United States. This network and the data that flows through it are the backbone for digitizing the closing and post-closing process.

We took our next step in 2020, adding Ellie Mae's origination network, which connects consumers, brokers, underwriters, and lenders. By integrating these businesses, we have for the first time brought together all the key stakeholders from origination to final settlement in one digital ecosystem.

Now, by integrating Black Knight's servicing and robust data and analytics offering with ICE's industry-leading loan origination, Data and Document Automation platform, as well as our closing and consumer engagement solutions, we have a combined platform that provides a true life-of-loan offering that will drive transparency and efficiencies across the workflow.

One of the key strengths of this combined platform, and, in particular, the ICE Mortgage Technology network, is the seamless integration of thousands of partners and the products and solutions they provide that are critical to the loan origination process. An example of that is our longstanding relationship with solutions such as Optimal Blue, which we divested to achieve settlement with the Federal Trade Commission. Importantly, Optimal Blue is still fully available to ICE's customers, with ICE continuing to capture value through an existing revenue share arrangement for existing and new customers.

As a group, ICE's customers are the largest consumer of Optimal Blue solutions through our open network, which is underpinned by a 10-year commercial agreement that codifies and extends a relationship that has been in place for nearly two decades.

In parallel, we plan to maintain and invest in our own product and pricing engine, further strengthening the mortgage ecosystem by providing additional options and greater efficiencies to lenders, servicers, and partners, ultimately lowering acquisition cost for lenders and enabling those savings to be passed to the consumer.

Moving to slide 8, the workflow efficiencies, we expect this combination to deliver, underpin an expanded addressable market of $14 billion, including $2 billion from servicing solutions and an additional $2 billion within data and analytics. Since our founding, we've recognized the value of leveraging data and analytics to drive transparency. We've continued to build on that expertise by broadening and enhancing our high-value proprietary data sets, connecting data across asset classes, and innovating for our customers, and we're following that same playbook with mortgage.

The expanded TAM within data and analytics includes an immediate opportunity to cross-sell Black Knight's proprietary data offerings to further enhance and accelerate the origination process, thus providing our customers with more choice and additional insights into rapidly-changing market dynamics. We'll also have the ability to expand the opportunity set with our Data and Document Automation offering by cross-selling this to our over 100 servicing clients as the efficiencies this platform provides is in high demand.

We also see increased demand from investors to better understand their portfolio valuations, performance and risk. This is a demand that ICE is uniquely positioned to solve through the combination of our end-to-end mortgage platform, with data generated from both our servicing platform and origination platform, combined with ICE's core competency in data management. By combining this rich data with ICE's presence across capital markets, we expect to be able to provide greater transparency through transaction-based data for more accurate pricing and prepayment modelling for the over $12 trillion mortgage-backed securities market.

Today, through our Fixed Income and Data Services business, we provide end-of-day and real-time prices on roughly 1 million mortgage-backed securities to approximately 1,000 customers.

Turning to slide 9. The integration of data and technology across the mortgage workflow should enable greater automation, and, in turn, reduce friction and lower costs to originate a home mortgage for all parties, ultimately making a loan both more affordable and accessible for the American homebuyer. By combining data on the consumer's payment history and loan balance with our rich analytical solutions such as our valuations and AllRegs, which is an industry-leading product availability and eligibility database, our servicing customers will be able to identify opportunities to proactively offer more efficient loan solutions to help lower costs and meet consumers' needs.

These efficiencies and additional transparency should ultimately accrue to the consumer by allowing lenders to proactively underwrite existing homeowners for future home lending opportunities. This should help consumers lower their housing payments by refinancing out of additional interest rate overlays or reducing risk adjustments to the original mortgage.

For potential homeowners, we're equipped with an end-to-end platform with solutions from initial home search all the way through servicing, which will help provide consumers and originators greater clarity, insights, and efficiencies that should ultimately improve the overall homebuying experience and match the consumer to the best lending product to meet their needs at the lowest cost. We also see an opportunity to develop innovative analytics, helping lenders connect with potential buyers in historically underserved markets and identify minority bias in the home valuation process. These are just a few examples of the many opportunities we see to enhance data and technology to support existing and potential homeowners.

Moving now to slide 10. As we outlined when we announced the transaction, our Mortgage Technology segment now has a higher mix of recurring revenues combined with Black Knight. On a pro forma basis, based on second quarter results, recurring revenues with an ICE Mortgage Technology would have accounted for approximately 80% of total segment revenues.

Importantly, these recurring revenues are underpinned by a highly-valued data and technology platform that is embedded in our customers' workflows. And by adding a more stable revenue stream to our current Mortgage Technology revenues, we will improve the visibility and durability of our earnings and cash flow further complementing our all-weather business model.

Shifting to annual revenue synergies, we remain focused on delivering $125 million by year five. These revenue synergies will largely be driven by cross-sell opportunities across our platform and its expanded customer base. An example of an immediate opportunity includes cross-selling Black Knight data and analytics products such as our valuation models, tax and closing fee information for customers to choose from on our ICE Mortgage Technology loan origination platform and network.

Another example is cross-selling Encompass into roughly 40 of the over 100 MSP servicing customers that do not use our loan origination system. This represents roughly 15% to 20% of total annual loan origination volume. At the same time, another example is cross-selling MSP into roughly half of the Top 150 Encompass customers that do not use MSP today, representing roughly 10% to 15% of first-lien servicing market share.

In this regard, we are pleased to share that clients, such as JPMorgan Chase, are investing across the workflow to drive greater efficiencies. As previously announced, they are implementing our Data and Document Automation platform. They are also one of the largest servicing customers of Black Knight. And they are the Top 5 global bank that we are implementing on Encompass on both their retail and correspondent channels replacing in-house legacy infrastructure. This is a perfect example of a large client bringing together a complete front-to-back experience for their clients through one trusted platform provider, and is a model we plan to replicate with many more customers.

Teams across ICE Mortgage Technology, Black Knight and ICE Fixed Income and Data Services have done an incredible job of identifying synergies and strategic initiatives over the last 16 months. And now, with the transaction closed, we are well-positioned to integrate and execute on these initiatives.

Over the course of my remarks, I've described just a few of the many opportunities we see to leverage data and technology to drive efficiencies and transparency across the mortgage workflow. And with a life-of-loan platform, unlike any out there that provides execution, settlement and data, we are excited about the value and the efficiencies that the combined entities will bring to the end consumer as well as other stakeholders across the mortgage ecosystem.

With that, I'll turn it over to Warren.

Warren Gardiner

Chief Financial Officer, Intercontinental Exchange, Inc.

Thank you, Ben. Please turn to slide 11, where I provide a brief overview of Black Knight's financials, including the expected contribution for the month of September and for the fourth quarter, as well as the expected pro forma results of the combined Mortgage Technology segment for 2023 and our go-forward growth expectations.

Based on a closing date of September 5, we expect that Black Knight will contribute approximately $85 million to $90 million of net revenues and roughly $50 million to $55 million of adjusted operating expenses to our third quarter results. And we expect incremental interest expense related to the financing of Black Knight to be in the range of $40 million to $45 million.

Looking to the fourth quarter, we currently expect Black Knight to contribute approximately $275 million to $285 million of net revenues and $160 million to $170 million of adjusted operating expenses. And that the full quarter impact of additional interest expense will be in the $125 million to $135 million range.

On a pro forma basis, full year 2023 ICE Mortgage Technology revenues, including the legacy IMT business and pro forma for Black Knight, are expected to be between $2.05 billion and $2.07 billion. While there will be fluctuations in growth rates from year-to-year, beginning with this largely recurring revenue as a base, we are targeting average annualized top line revenue growth in a normal or more stable mortgage markets in the high-single digit range.

Supporting these targets is 8% to 10% average annual growth from the legacy ICE Mortgage Technology business, stand-alone growth in the mid-single digit range for the acquired Black Knight assets, and the achievement of revenue synergies.

However, while not expected to impact these longer-term targets, in the near-term, we expect top line growth will be in the low- to mid-single digit range until the mortgage market normalizes and/or revenue synergies begin to be realized. We intend to provide you with historical pro forma results in early October and additional guidance with respect to our 2024 expectations on our fourth quarter earnings call in early February.

Moving to expense synergies, we continue to expect approximately $200 million by year five with $100 million in run rate synergies realized by the end of 2024, $150 million by the end of year three and $200 million by year five. These cost synergies are largely expected to be driven by the integration of corporate functions, real estate consolidation, overlapping corporate systems, and a more efficient use of other shared services across not only the combined mortgage platform, but also broader ICE.

It's worth noting that following the close, we have already identified approximately $40 million of annualized savings, giving us increased comfort in our ability to achieve our $200 million target. Transaction consideration was in the form of 90% cash and 10% stock or about 10 million shares. We finance the cash component through the cash – through cash on hand of approximately $6 billion, including proceeds from the long-term notes we raised back in May 2022 at an average coupon of 4.24%, $2.5 billion of commercial paper and the drawdown of our $2.4 billion term loan.

Our CP and term loan currently carry an average interest rate of around 5.5% to 6%. This financing that we are currently paying down and we'll continue to pay down as quickly as free cash flow allows. As a result, gross leverage at the end of September is expected to be around 4.3 times pro forma EBITDA, and we continue to target 3.25 times before we resume share repurchases, which we anticipate will be reached in 2025.

You will note on appendix slide 20, our strong track record of deleveraging post-acquisition. As with Ellie Mae and consistent with the target we set when we announced the acquisition of Black Knight, we are targeting normalized leverage levels of 3 times and we believe that our enhanced cash flow generation will allow us to achieve this deleveraging path even as we continue to invest in our business and our people while also continue to grow our dividend.

Lastly, and relative to consensus estimates, we anticipate the transaction will be accretive to ICE's adjusted earnings per share by the second half of 2024, with adjusted earnings accretion accelerating thereafter. Timing and magnitude of accretion will largely be driven by the realization of expense synergies and importantly the paydown of short-term financing.

Moving to slide 12, based on the second quarter results and pro forma for Black Knight, we expect that our Mortgage segment will represent approximately 25% of total ICE revenues, compared to 14% previously. Recurring revenues within our Mortgage segment are expected to account for nearly 20% of total ICE revenues, while mortgage transaction revenues represent a little more than 5% of total ICE revenues.

In sum, we're very pleased with the progress we've made so far. The teams across ICE and Black Knight have done an exceptional job working together to position us to hit the ground running post-close, and we are excited to apply the ICE blueprint to digitize yet another large and inefficient asset class.

With that, I'll be happy to take your questions during Q&A, but I'll first turn the call back over to Jeff for some closing comments.

Jeffrey Craig Sprecher

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

Thank you, Warren. I'll conclude my remarks on slide 13. ICE management has been focused on identifying long-term trends and positioning the company to take advantage of such macro trends. However, there's been an overarching macro trend that's been playing out over more than a decade that ICE had not been positioned to fully participate in without the addition of Black Knight. Over the past few years, access to financial services has increasingly been pushed much more directly into the hands of consumers, a trend that accelerated further during the COVID pandemic.

ICE is a B2B company and access to our execution, settlement and data platform makes its way into the hands of consumers via others. We've witnessed over the past decade a rise of fintech companies that were created specifically to displace our traditional customers, who are the intermediaries in finance. ICE had been dependent on these intermediaries to innovate on their own in order to keep their customers from bypassing them. Our inability to participate directly in consumer markets has not been due to a lack of capabilities, but rather because most of our businesses are regulated in ways that prevent us from ourselves offering direct to consumer access.

It's not that we couldn't envision creating NYSE direct, but, for example, US securities laws do not allow our regulated exchange to offer securities directly to consumers. Finding a nexus in the direct-to-consumer facility was a driver behind our conversations with eBay and was also why you saw ICE as an early investor in crypto, all in order to situate our company closer to end user consumers.

With Black Knight, we are now in a position to see data and micro trends that give us valuable insight into existing homeowners and prospective homeowners in the United States while maintaining our B2B status. ICE, by virtue of providing white labeled consumer software attached to our platform, is in a much better position to ensure that our customers are equipped to stay close to and make the most of the consumer engagement trend.

And the consumer cohort serviced by Black Knight on our platform is one of the most relevant groups able to benefit from the type of infrastructure that ICE can innovate around and offer to the market through our traditional financial intermediary customer base.

Warren mentioned that we estimate our acquisition of Black Knight to be accretive in the second half of 2024. But I can tell you that we're incredibly excited to successfully add some of the most relevant functionality in the consumer credit space to our platform during this very complicated environment for merger approvals and software acquisitions. This transaction provides access that we were previously lacking to one of the most important macro trends in our space, with its incumbent upside opportunities for growth and innovation while drawing little or no sacrifice to expected near-term earnings. That's a home run.

And I want to thank my colleagues at ICE and my new colleagues at Black Knight for their perseverance and their flexibility in completing our merger. And I would also like to thank ICE and Black Knight shareholders for your patience while we navigated the complexities of this deal. And I'd like to thank our combined customers for their continued support during an uncertain period.

With that, I'll close our prepared remarks, and I'll turn the call back to our operator, Seb, and we'll conduct a question-and-answer session until 9:30 Eastern Time.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] The first question today comes from Ken Worthington at JPMorgan. Please go ahead.

Kenneth B. Worthington
Analyst, JPMorgan Securities LLC

Q

Hi. Good morning, and thanks for taking the question. Congrats on closing the Black Knight transaction. So maybe starting higher level, ICE has highlighted, historically, 60 days and $10,000 to cost to originate a mortgage, and there was a thought that there's about $3,000 of cost savings in making the mortgage origination process more efficient in digitizing it. Can you talk about where ICE stands today in terms of delivering this efficiency? And with the closing of Black Knight, how do you see the path forward in getting to your deliverables?

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

A

Thanks, Ken. This is Ben. And thanks for the question. And you're right, we have highlighted that roughly $3,000 of that cost to originate a loan today is directly associated to manual processing, stare and compare work, addressing errors and the like. And some of the key areas that we've been innovating around to help drive those efficiencies for our clients, and it's still early days in cross-selling that, but a lot of it is in that Data and Document Automation platform, formerly known as AIQ, that we've been cross-selling to our client base.

What that platform enables you to do is it basically digitizes all the data payload that's coming in both through third-party service providers on our network as well as the loan details as it's being originated and comparing to – that to what the underlying criteria is for that mortgage that one is applying for, and helping to automate to make sure that as the loan is maturing and as you're going through income checks, credit verifications, checking the collateral value, as you're going through each step of that loan process, it's checking those data points to make sure that, indeed, the data that's showing meets the threshold and the criteria to qualify for that loan.

So we're pleased that the clients that are adopting that platform and have adopted that – adopting that platform are seeing that efficiency driving out of the system. I mentioned on the last quarter's call that we signed another very large originator and cross-country mortgage on that. And we've also mentioned that we're implementing JPMorgan Chase on that solution set as well. So as more and more lenders come on to that platform, they're going to see the efficiencies coming out of it. And quite frankly, with all of our new deals that we have on Encompass, clients are opting for that to be a native part of the overall solution set. So, we're seeing clients that are acknowledging the benefits this provides, and we're starting to see acceleration in sales development and funnel development on that front.

In parallel, we're also seeing efficiencies out of the e-closing process. So, the e-closing room that we had where, for the first time, we're bringing together the consumer, the lender, and the settlement agent all into one electronic closing room, providing efficiency as the loan is maturing. So, everybody can see exactly where that loan is in a digital basis, and getting rid of the mailing of documents back and forth to check it, allowing for the digital signature and execution of documents that need to be executed as a loan is maturing. That alone is starting to take out costs for both the originator as well as the end consumer in the form of just mail processing and UPS envelopes and things like that that are being eliminated, as well as the stare and compare work. So we're seeing advancements in that area of the process.

With Black Knight, we see even more opportunities, and I'll give a couple of examples. So, one, the loan onboarding process into platform s- servicing platforms like MSP, it can be onerous, it can be time consuming. And we believe, based on we have a couple of customers right now that use our Data and Document Automation platform for the automated loan onboarding process of bringing loans into the MSP servicing system, we believe for the efficiency, the time savings that that platform provides as well as reduced errors in getting those loans officially into the MSP platform, there's a lot of benefit there. And we believe that platform is 100% applicable to be cross-sold to the entire MSP client base.

And another example I'll bring up is within our Simplifile business. So, Simplifile, really a key part of our closing platform, has today, based on its nexus and the roads that it's been able to automate to the local counties, it has a platform today that automates the lien release process. So, when loans paid off, it can digitally record that at the county and facilitate a complete electronic fulfillment of the completion of that loan payoff.

That is obviously a 100% applicable again to the entire MSP client base as something that we can cross-sell to them and it provides a ton of efficiency as we've seen originators have gained by utilizing that platform and it's been a high-growth area for us over the last few years. So, those are several examples of where we're seeing some tangible efficiencies and benefits to both the originator, we believe will happen for the servicer and then also to the end consumer.

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

Alex Kramm
Analyst, UBS Securities LLC
Q

Just a little bit of numbers question here, and [ph] sorry, there's (00:35:21) obviously a lot of numbers flying around. But when I think about the near-term expectations for Black Knight for 3Q, 4Q and then also maybe next year, it seems like you may expect the business to shrink a little bit before it starts growing again, and I think some of the numbers you put out in 8-K last week I think suggest that, too. So maybe you can just talk about the cadence of recurring revenue, why it may be still shrinking, and what will make it increase again?

And then just a very quick one to squeeze in. On the interest expense, I think there's some confusion of the base. So can you maybe, Warren, give us 3Q and 4Q expected pro forma interest – net interest expense on a combined basis? Thank you.

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.
A

Yeah. Hey, Alex. So I think your first question on the revenue, no, we don't expect the Black Knight assets to be shrinking next year. I think when you – within that 8-K, I think that there were some revenues that were related to some of the divested assets, frankly, that you'll eventually see that will come through. So I think as we're looking towards to next year, you should expect and, again, I've mentioned earlier, low- to mid-single digit growth in terms of what we're thinking about at the moment. Now, again, we'll give you some more refined guidance when we get to 2024 and get to that guidance.

But, we do expect that business to continue to grow. I think, right now, certainly, just given the macro backdrop, there have been some headwinds. But as the market normalizes and stabilizes, I think you'll start to see that, that get back to where the more normal level of mid-single digit and then more with revenue synergies.

So again, I think, I said in my prepared remarks, we'll have some of the pro forma results that, in the coming days, early October, that you'll be able to kind of see what the acquired RemainCo is really looking like that so.

And then on, I think the second part of your question was on interest expense. Our base – our run rate, pre-Black Knight, has been around $120 million for quarter. So you can add the $40 million I mentioned to that for the third quarter, and then obviously add the $100 million or $40 million, $45 million and then add the $125 million to $135 million, sort of $130 million at the midpoint, of course, to the $120 million run rate, as you're thinking about the fourth quarter.

As you know, the current run rate interest expense on legacy debt is all fixed. A large chunk of that $125 million to $135 million is also fixed. I mentioned the notes that we raised last year and that, of course, we do have a little bit of fluctuation that will come through not only as we pay down the debt, but also just as interest rates fluctuate on our commercial paper and also to an extent on our term loan.

Operator: Our next question comes from Alex Blostein from Goldman Sachs. Please go ahead.

Alexander Blostein Q
Analyst, Goldman Sachs & Co. LLC

Thank you, guys. Good morning. I was hoping we could go back to the discussion of a more extended TAM for the mortgage business. And in the past, you guys kind of talked about the 8% to 10% long-term growth ambitions for Mortgage Technology as a whole. It sounds that from your prepared remarks about kind of long-term growth being in that range, that range sort of stays. So I guess a couple of questions. Why isn't it higher given various new opportunities that you've highlighted? And maybe help us with some of the building blocks. Again, this is a little bit of a medium to longer-term question. But as you think about the composition of that 8% to 10%, what's market, what's share gains, what's sort of pricing or participating in savings with customers and sort of new initiatives? So help us kind of maybe better dissect what's kind of macro versus what you guys are actually doing organically?

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

Great. Thanks for the question, Alex. This is Ben. I'll start, then I'll hand it to Warren. So as we outlined with transaction, we've highlighted $125 million revenue synergy target and we feel really good about the opportunity for us to achieve that. And I'll unpack some of the components of it.

In aggregate, when you go through a whole bunch of what I see is pretty low-hanging fruit in front of us, we see that there's well north of $300 million worth of opportunities for us to go after that require little to almost no technology build to go after. It's all – think of it as cross-selling and a lot of that is replicating what I went through in terms of the journey we're on with JPMorgan Chase and providing them a complete front-to-back solution from one provider.

So, the three kind of categories to think of that we're going to be executing to fill that more than $300 million is, first, the cross-selling of Encompass to MSP clients that currently are not on Encompass. We've targeted that there's roughly 40, so out of the entire MSP customer base, there's a little north of a 100, and we believe that 40 of those are not on Encompass today, and that represents roughly 15% to 20% market share of annual loan volume that we think we're going to have a great opportunity. A lot of these customers are large banks, they're on legacy infrastructure. They're also on competitive LOS systems that we think with the complete front-to-back offering we have we'll be well-positioned to win those.

The second category is the cross-selling of MSP into – we look at out of the 3,000 lenders that are on Encompass, we targeted starting with the top 150 and roughly half of them are not on MSP today. Some of them are on very legacy home-built systems, some of them are on competitive platforms. And we think there's a great opportunity again with our front-to-back offering that we're going to be able to provide with the efficiencies that provides that we'll be able to have a lot of great client success here and that represents 10% to 15% of first-lien market share.

The third category that I'd put is cross-selling, a combination of technology platforms that came with Black Knight into the Encompass-based technology platforms that ICE has, cross-selling that into the MSP base as well as data. Some examples I brought up in the answer to a prior question, but some obvious examples to me are cross-selling our Data and Document Automation platform to the entire MSP client base. That's a great opportunity for us.

Our lien release platform within Simplifile is another one and cross-selling that to the entire MSP client base. There is a platform that we kept and held back within ICE when we sold the Empower business to Constellation, a CRM platform called Surefire that is very complementary to an industry-leading CRM platform, that's complementary to our lead management platform that we have with an ICE called Velocify. We plan to bring those platforms together, and there's an immediate cross-sell opportunity, we think, to a large portion of the Encompass customer base to cross-sell that platform.

And then, you have the low-hanging fruit such as the data and analytics products that I also mentioned in my prepared remarks with Black Knight being a leading provider of data like property tax, closing fee information, valuations on properties, all of that is very applicable to be cross-sold into our Encompass customer base. And most of those have not been available to our clients before. So, if you just take those again as cross-sell opportunities, that's a lot of low-hanging fruit that, in and by itself, is over $300 million in opportunities for us to go after, and that doesn't even include medium- to long-term opportunities that are out there.

Warren Gardiner A

Chief Financial Officer, Intercontinental Exchange, Inc.

Yeah, the only thing I'd add there too Alex is, as part of that build to the high-single digit growth target in a more normal or stabilized mortgage market. Ben obviously mentioned some of the existing products that are off-the-shelf here that we can sell and address right away here. But there's also going to be new products, of course. I mean, particularly within the data business, he mentioned some of the data analytics and the analyzers that are really focused to bring efficiency, the workflow, that's part of that $6 billion or so data TAM that we've outlined for you.

We also, as you know, are thinking about and starting to build towards products that can serve the secondary markets more and bring more transparency to those. And those are all products too that we have obviously existing customer connectivity to across both primary and the secondary market. So we feel good about those as that – as being part of the growth algorithm.

We're also going to make is, as you heard us say back in May of last year, some technology investments and the technology stack. And I think, combined with additional efficiencies that will bring through some of these data and analytics products in our broader offering, there may be opportunity over time to capture a little bit of value as well.

And then the last point I'd just make, too, is that certainly we're in a pretty decade's sort of low in terms of where origination volumes are today. And then, we're also a decade low, almost a 50-year low in terms of foreclosure activity. And so, as those things – and that would be something that would benefit the servicing platform. And so as those things normalize as well, I think that could provide some additional upside.

So when you pull all that together, we feel very comfortable about that high-single digit target range.

Operator: Our next question comes from Kyle Voigt at KBW. Please go ahead.

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

Hi. Good morning. Maybe a two-parter on expenses for Warren. Just as we model out BKI's expenses next year, kind of is this 4Q expense range a good run rate to start modeling synergies off of through 2024, or is this still a bit elevated as I think BKI had some seasonality in their expense base. historically, with 4Q being a high point?

And then, secondarily, just wondering if you could talk about how you think about normalized expense growth for the pro forma segment in a backdrop of normalized revenue growth that you kind of provided, high-single digits? Just trying to think about the kind of the margin expansion profile of the business over the long term. Thank you.

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.
A

Sure. I'll try to answer that altogether because I think it's somewhat related. But, look, I think the expense range we gave for the fourth quarter is a good starting point. And certainly, as we realize additional synergies through the balance of next year, you'll see the benefit of that come through.

When you're thinking about expense growth overall, look, we manage as one business. So, I would really point you towards thinking about the ICE expense base overall. And as you know, in the past, we've historically guided to sort of 3% to 5% sort of annual expense growth in terms of the range we've given on our fourth quarter call to provide the guidance for the coming year. I think that that's a fair place to be thinking about as you go forward even with the inclusion of the Black Knight assets. Obviously, we'll get some benefit of synergies on top of that as we move through next year and the subsequent years, but nothing about the acquired assets here is going to change that broader expense growth profile for ICE overall.

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

Great. Thanks, Warren.

Operator: Our next question is 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 the question. I just wanted to come back to the revenue synergies and the $300 million opportunity that you've identified and – versus the $125 million. And seemingly, it looks like you have a good chance of executing ahead of that $125 million goal. So just, first, I guess, is the low to mid-single digit BKI top line for the near term considering that the $125 million to be pacing over that five years, and so, therefore, is there upside if you execute well into this $300 million opportunity near term? I guess just the thought of, should we be considering, potentially, that you're going to significantly exceed the $125 million?

And then just on the legacy ICE Mortgage business, are we still looking for low-single digit recurring revenue growth for the legacy business for 2023?

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

A

Hi, Brian. This is Ben. I'll start and then Warren will pick up from there. I think one thing to think about is we feel good about the engagement that we're having with clients around these significant cross-sell opportunities on Encompass and on MSP. But you have to remember, this is – these are large projects for these institutions. A lot of the clients that we're talking about are very large banks, big regional banks and large non-bank companies.

So they oftentimes go through an RFP process and then once selected, there's a decent sized implementation process around those. So while we feel good on our ability to execute that, we have line of sight on a number of opportunities that we feel real good about. I unpacked the JPMorgan Chase thing that we're executing on right now in my prepared remarks. It's going to take time for us to realize those and we look forward to being able to give you updates on that in the coming earnings calls.

There is a subset of those cross-sell opportunities that are low-hanging fruit that will be more immediate for us to start to recognize revenue on and that's more of the data, the CRM platform, the lien release product, some of those other ones are ones that we do see, nearer term, provide significant efficiencies to our clients are things that can be turned on relatively quickly, and that we will be generating revenue opportunities from. So that's the way to think about those three major categories that I mentioned we're going to be executing on in early days.

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

And then, Brian, I don't know that I caught all those questions in there, but maybe I'll just clarify what I said in my script was that the total ICE Mortgage Technology segment, so including not only the Black Knight assets but also the legacy IMT business, as we sit here and think about the near term and given the current just headwinds that are obvious within the broader macro in the mortgage industry, that combined segment, we expect to be more low to mid-single digits for next year or, I should say, in the near term or until things normalize. I don't necessarily know what will happen next year at this point, but that's how I would think about those – that combined business at the moment in terms of the growth potential there.

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

A

And this is Jeff. Let me just mention that part of building an all-weather company is that we've tried to design our portfolio and our platform so that where there are headwinds, like as Warren referred to them, due to high interest rates, which is affecting consumer credit, those same headwinds are tailwinds that have been affecting things like credit default swap hedging, the asset value of commodities around the world and other businesses that we have that are doing essentially record performance right now. So we're trying to organize the company so that as you all run your models, there's always an earnings line that's up [ph] into (00:51:18) the right.

Brian Bedell
Analyst, Deutsche Bank Securities, Inc.

Q

Right. [ph] Great points (00:51:24). Thank you.

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

Benjamin Budish
Analyst, Barclays Capital, Inc.

Q

Hi, guys. Thanks for taking the question. I wanted to ask about the cost synergies. The numbers [ph] are unchanged before (00:51:42). But I'm wondering, is there anything you can do that perhaps Black Knight would have done over the past year, but maybe didn't or couldn't because the merger was pending, so that wouldn't be like an operational cost synergy but maybe just a normal run-of-the-mill kind of cost takeout, any kind of upside, not perhaps the $200 million number, but just anything else you might do that could be additive to the bottom line there? Thanks.

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Hey, Ben. It's Warren. So good question. Yeah, there's a little bit there, but certainly in terms of part of the broader $200 million, not a terribly significant amount. And so we've started to execute on some of that. That's when I talk about some of the $40 million that we've identified already, there's a component of that, that's included in that number as well. So, yes, there's a little bit of that, but, again, it's something that just gives us increased comfort that as we kind of – as we move through the process here with synergies over the next number of years, we've just got increased comfort that we'll be able to hit those targets as we sit here today.

Benjamin Budish
Analyst, Barclays Capital, Inc.

Q

Okay. Thanks. Appreciate it.

Operator: Our next question comes from Craig Siegenthaler from Bank of America. Please go ahead.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

Good morning. Thanks for taking my question. I had two follow-ups on the high-single digit revenue target for total IMT revenues. Number one, does this exclude the $125 million of revenue synergy target over the next five years, which I think as you just commented in a prior question, could be $300 million longer term? And two, what does this assume for refi activity level just given it's very currently depressed? Fed maybe cutting in future years, but on a longer-term basis, it should be a lot higher. Thank you.

Warren Gardiner
Chief Financial Officer, Intercontinental Exchange, Inc.

A

Craig, it's Warren. So in terms of what I think a normal mortgage market would look like, that's going to be probably somewhere in the 7 million to 10 million loan range. So, there's certainly an expectation over time that that comes back to what we've seen more historically, certainly not what we saw in 2020 or 2021, which was loan volume at an industry level, closer to 14 million loans. So, I think more of a normal range in terms of what we would expect there. It would be in that sort of high-single digit in terms of an industry loan volume.

In terms of the question around revenue synergies, yes, those are included in our high-single digit targets. I mentioned that as part of the build. So, it's 8% to 10%, as we noted, for the legacy IMT business, stand-alone growth for servicing, and data and analytics for Black Knight typically in the mid-single digit range, and then the addition of the revenue synergies of $125 million gets you to that high-single digit range.

Craig Siegenthaler
Analyst, BofA Securities, Inc.

Q

Thank you, Warren.

Operator: Our next question is from Michael Cyprys from Morgan Stanley. Please go ahead.

Michael J. Cyprys
Analyst, Morgan Stanley & Co. LLC

Q

Hey, good morning. Thanks for taking the question. I was hoping you could elaborate on where you guys are in the journey of migrating the ICE Mortgage Technology business to the cloud as well as where BKI servicing business is with respect to the cloud. How you see that progressing in the coming years and what sort of benefits do you anticipate and if there's any sort of lessons learned along the way that you're willing to share? Would be interested to hear that as well. Thank you.

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

A

Sure. Hi, Michael. This is Ben. So, we're well into the journey to take the legacy LMA business and migrating that to the cloud. That really takes two forms. One is, there is some modernization we needed to do to that loan origination system. Some of it was more client-based, and we are going channel by channel and have executed on a multiyear plan to migrate that entire Encompass platform to 100% web-based. And we're right at the conclusion of that, so we feel great about that.

We've also, in parallel to that effort, been migrating to the ICE Cloud. So, we have been taking components of that overall ICE Mortgage Technology business, looking – starting with a lot of the non-Encompass pieces and now we're planning around the Encompass clients and basically moving them from third-party cloud providers to our own proprietary cloud platform. The main reason for that is we pride ourselves in our expertise in managing those platforms both from a cyber perspective as well as our network and technology capabilities in running data centers. And we also find it as the best way to control our costs longer-term as any of the areas where we have used third-party cloud providers in the past, it's one area of expense, and when you do that, it becomes very difficult to control. So, we are well on that path.

As it relates to the Black Knight business, and MSP, in particular, the Black Knight team has done a good job of upgrading components around that MSP platform. They have some very interesting innovation with things like Servicing Digital that they've built, which is like consumer portal that consumers go ahead and make their loan payments on. They can look at a map of a neighborhood and view valuations of their home as well as their neighbor's home based on our valuation models. They can go through detailed property records data based on the property records data business that we now own to see a lot of history around the property itself.

So they have some really interesting things around the periphery of MSP. And based on our expertise and a lot of engagement we've had in our integration planning over the last 16 months and the engagement that we've had with all the bank customers and all the bank or all the customers of MSP, we have a pretty very solid view of how we're going to be able to modernize that core MSP power plan. It's going to take time to do that. And we're going to use the same playbook that we did when we bought the ICE Data Services business, which was heavily on mainframe file delivery systems. And we went through a journey over several years to migrate that and modernize all that and have completed that some time ago.

Jeffrey Craig Sprecher

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

A

And this is Jeff. As I said in my prepared remarks, one of the things that we've been grappling with for more than a decade is watching fintech companies and crypto companies going directly to consumers and bypassing financial intermediaries. And it's our ability now to control that tech stack that Ben talked about and put it in our proprietary cloud and then third-party clouds and build consumer-facing tools ourselves that we can offer to financial intermediaries to keep them from being displaced, gives us much more control and really makes us feel much better about our positioning than we had over the last decade or so.

Operator: This now concludes the Q&A session. I will hand the floor back to Jeff Sprecher for closing remarks.

Jeffrey Craig Sprecher

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

Well, thank you, Seb, and thanks all of you for joining us this morning. We'll continue to look forward to updating you again as we build out this innovative platform that will further advance markets and deliver compounding growth to our shareholders. Thanks, again, and have a great day.

Operator: This concludes today's conference call. Thank you all very much for joining. You may now disconnect your lines.