Intercontinental Exchange, Inc. (ICE) CEO Jeffrey Sprecher on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-31-19 Earnings Summary

Press Release *Slides*

EPS of $1.06 beats by $0.10 | Revenue of $1.34B (11.33% Y/Y) beats by $13.11M

Earning Call Audio

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Intercontinental Exchange, Inc. (NYSE:ICE) Q3 2019 Earnings Conference Call October 31, 2019 8:30 AM ET

Company Participants

Warren Gardiner - VP, IR

Scott Hill - CFO

Jeffrey Sprecher - Chairman & CEO

Benjamin Jackson - President

Conference Call Participants

Richard Repetto - Sandler O'Neill

Michael Carrier - Bank of America Merrill Lynch

Kenneth Worthington - JPMorgan Chase & Co.

Daniel Fannon - Jefferies

Alexander Kramm - UBS Investment Bank

Brian Bedell - Deutsche Bank

Alexander Blostein - Goldman Sachs Group

Owen Lau - Oppenheimer

Operator

Good morning, and welcome to the Intercontinental Exchange Third Quarter 2019 Earnings Conference Call. [Operator Instructions]. Please note, this event is being recorded. I would now like to turn the conference over to Warren Gardiner, Vice President of Investor Relations. Please go ahead.

Warren Gardiner

Good morning. ICE's third quarter 2019 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 2018 Form 10-K and other filings with the SEC. In our earnings supplement, we refer to certain non-GAAP measures, including adjusted income, EPS, operating income, operating margin, expenses, effective tax rate, free cash flow and adjusted debt to EBITDA. We believe our non-GAAP measures are more reflective of our cash operations and core business performance. To find a reconciliation to the equivalent GAAP term in the earnings materials and an explanation of why we deem this information to be meaningful as well as how management uses these measures in our 10-Q. 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. Please see the explanatory notes on the second page of the earnings supplement for additional details regarding the definition of certain terms.

With us on the call today are Jeff Sprecher, Chairman and CEO; Scott Hill, Chief Financial Officer; and Ben Jackson, our President. I'll now turn the call over to Scott.

Scott Hill

Thanks, Warren. Good morning, everyone, and thank you for joining us today. I'll begin on Slide 4 with some of the key highlights from our record third quarter results. Third quarter revenues grew 11% versus last year to a record $1.3 billion. Adjusted operating margins expanded 2 points to 59%, resulting in a record adjusted operating income, which grew 16%. This strong performance generated record adjusted earnings per share of $1.06, an increase of 25% over last year's third quarter and the best quarter in our company's history. Strong growth in our trading and clearing revenues was driven by 19% growth in energy and 23% constant currency growth in financials. Record data and listings revenues included data revenues of $553 million, which were up 5% on a constant currency basis. Adjusted operating expenses totaled $551 million, including a onetime benefit of roughly $6 million within SG&A. Expenses would otherwise have been right in the middle of our guidance.

Looking to the fourth quarter, we expect adjusted operating expenses to be in the range of $562 million to $572 million. This improves our full year 2019 expense guidance to a range of $2.18 billion to $2.19 billion. Importantly, though, as you think about our pro forma 2019, you'll need to add to that around $50 million to reflect a full year impact of Simplifile, the licensing reclass that started in the second quarter and the onetime items we've mentioned through the first three quarters.

I also want to provide some color on our third quarter adjusted tax rate of 17.5% and the positive implications for 2020. Based upon additional guidance published in March related to the foreign derived intangible income, or FDII, aspect of the 2017 U.S. Federal Tax Reform, we were able to refine our 2018 return assumptions, which we just filed this month and our 2019 provision. These prior year and year-to-date true-ups are reflected in the low rate in 3Q, and the refined assumptions are expected to contribute to an adjusted tax rate of around 22.5% in the fourth quarter. More importantly, we expect these changes, combined with a scheduled U.K. tax reduction in April of next year, to lower our 2020 tax range by roughly 100 basis points to a range of 21.5% to 23.5%.

Moving to capital return, through the first nine months of 2019, we've generated free cash flow of over $1.7 billion. We've returned over 90% of that cash to our shareholders through dividends and share repurchases, including $340 million of buybacks during the third quarter. We continue to expect capital return to grow as we grow, balanced against the need for incremental investments or M&A.

Turning to Slide 5. I'll discuss our Trading and Clearing segment. Revenues of $669 million were up 20% year-over-year in the third quarter. Adjusted operating margins expanded by 2 points to 65%, helping to drive a 24% increase in adjusted operating income. In our Energy business, third quarter revenues increased 19% year-over-year, marking the best quarter ever for our Energy revenues. ADV across our oil complex increased 15% year-over-year, led by 15% growth in Brent and 24% growth in our other crude and refined oil complex.

Our European natural gas business also continues to deliver strong growth, including record third quarter ADV, up 63% and year-to-date volumes, which have grown nearly 50%. In addition, open interest in October across our Energy business is up 8% since the end of last year, led by recent OI records in our Brent crude, North American basis market and TTF natural gas futures. In our Financial Futures business, revenues increased 23% versus last year adjusted for FX. Volatility related to Brexit, as well as uncertainty around the direction of global interest rates, drove strong volumes in Euribor and Sterling product with ADV of 18% and 11%, respectively. Similarly, ADV across our equity index business increased 19% year-over-year. Higher levels of volatility and increased adoption combined to deliver 24% growth in our MSCI ADV compared to the prior year. As we closed out October, open interest in our financial futures business is up 26% from the end of last year, with October registering record levels of sterling open interest, which is up 64% from the end of 2018.

In fixed income and credit, revenues totaled $101 million for the quarter, including $35 million of revenue from our CDS clearing business, which was up 8% year-over-year and reflected record levels of buy side clearing activity.

Moving to Slide 6, I'll discuss our Data and Listings segment. Third quarter revenues totaled a record $667 million, with adjusted operating margins increasing to 52%. In our listings business, the NYSE listed 18 IPOs during the third quarter and has listed 46 IPOs year-to-date, helping our customers raise over $26 billion in proceeds. In addition, our innovative direct listing offering continues to attract interest. The NYSE's hybrid model uniquely combines the human judgment of our direct market makers, with the state of the art technology, to reduce frictions that exist in today's IPO process.

Shifting to data services. Revenues totaled $553 million, an increase of 5% year-over-year on a constant currency basis. Revenue growth in pricing and analytics improved sequentially to 5% on a constant currency basis in the third quarter, driven by solid results across our pricing and reference data business as well as our suite of index products. We expect pricing and analytics revenue and growth to improve sequentially again in the fourth quarter as the secular shift towards workflow automation and fixed income market and from active to passive product continues. In exchange data and feeds, revenues grew 3%. Slower growth at NYSE was mitigated by 6% growth in our futures business, which continues to benefit from strong commercial interest in our global commodities platform.

In desktops and connectivity, revenues grew 10% on a constant currency basis, with performance driven by a sequential improvement in Ice Global Network revenue, reflecting a strong quarter of implementation. We expect connectivity growth to continue to be supported by demand for cyber secure connectivity and vendor optimization, but quarter-to-quarter results will continue to vary based on the timing of customer implementations. Finally, we expect fourth quarter data services revenue to be in the range of $555 million to $560 million, and thus, for the full year, our data revenues will be right around the middle of the guidance we provided when we entered the year.

Our focus remains on serving our customers and delivering value to our shareholders. The efficacy of our diverse business model is once again reflected in open interest growth across our trading and clearing business, complemented by continued and compounding growth in our data business. Through the first nine months of 2019, we generated record revenues, record adjusted operating income and record adjusted earnings per share. And even as we have continued to strategically invest in our future, we have also returned a record $1.6 billion to shareholders. I'll be happy to take your questions during Q&A. But for now, I'll turn it over to Jeff.

Jeffrey Sprecher

Thank you, Scott, and good morning to everyone on the call. I'll begin on Slide 7. Since our inception, we pursued growth opportunities that leverage our leading technology and operational expertise. It's an approach that's guided our evolution into a number of adjacent markets and one that has positioned us today as one of the most diverse market infrastructure companies in the world, operating markets across major asset classes and geographies while serving an array of customer and industry participant needs. Our experience in building trading, clearing and settlement infrastructure informs us of the importance of analytics, indices, payments and valuation services. These are solutions that drive efficiencies, not proceeds that decline with our customers' headcounts. We made our first investments in these areas well over a decade ago, and we continue to build on that foundation, helping to facilitate workflow automation, enhancing pretrade decision-making and improving market transparency.

Our third quarter performance demonstrated the value of such investments. Trading and clearing revenues grew 20% year-over-year, while recurring revenues in our data business, which represents nearly half our revenues, grew 5%, marking the 39th consecutive quarter of year-over-year growth. A number of years ago, we saw the importance of investing in an energy platform that is truly global. One that better serves the needs of an evolving and growing commercial customer base. Today, as trade dynamics evolve and become increasingly complex, customers are seeking not only liquidity in the major global benchmarks but also in products that provide for greater precision, particularly when coupled with comprehensive data and analytics. Our global oil complex spans over 600 products, including locational spreads, product spreads and refining spreads, products that are built off of our benchmark contracts, such as Brent crude oil and gas oil. And as the natural gas markets gained greater importance around the world, our customers are increasingly turning to our global platforms for their risk management needs.

In the third quarter, we reached another record in our European TTF and Asian JKM gas contracts, helping to drive record revenues across our natural gas complex through the first nine months of 2019. In our financial markets, the MSCI equity derivative complex is having another strong year, with average daily volume up 16% through the end of the third quarter. And since moving to the ICE platform in 2014, open interest in our MSCI futures contracts has grown at an average annual rate of over 20%. In late September, we announced the extension of our existing licensing arrangement and expansion of our partnership with MSCI, following on the strong performance that we have together enjoyed. As a part of this expansion, MSCI plans to integrate ICE's pricing and reference data into its growing suite of services. And ICE plans to launch a suite of new futures contracts based on MSCI's leading ESG franchise and access MSCI's ESG data to bring new and innovative indices to market.

So these are just a few examples of how we listen to our customers' needs, work closely with key industry participants and apply our technology and operating expertise to grow the ecosystems that surround our markets. Over the past few months, we've launched a number of exciting early stage strategic initiatives that will help establish a foundation for us to continue to evolve and grow well into the future. For example, towards the end of October, in collaboration with the industry, we successfully moved the U.S. MOVE indices from Bank of America Merrill Lynch. The MOVE indices will be managed by ICE Data Indices and powered by ICE Data Services analytics. This complex will join an index platform with $1 trillion of benchmarked assets, including $200 billion of AUM and exchange-traded funds. The acquisition of the move indices will also allow us to launch related futures and options products, which is yet another example of how data and trading drive a virtuous cycle.

In October, we also executed our first trade through the ICE ETF Hub. While it's early days, the activity across this platform and participant interest is building, with a number of leading authorized participants and key market makers joining BlackRock on the platform. Leveraging ICE Data Services pricing data, reference data, index offerings and intelligent analytics, the ETF Hub will act as a central portal for ETF primary trading, which is also known as the create-redeem process, while it also places our comprehensive fixed income offering in the middle of a market that is undergoing an analog to digital conversion. As the world's leading ETF sponsor, BlackRock's developmental partnership in this project is an important first step towards bringing more efficiency and standardization to the industry and supporting its continued growth. In addition to launching ETF Hub, our trading protocols within ICE bonds will soon connect to the Aladdin platform. Together with our recent integration with the Charles River platform, our institutional customers will soon have better access to ICE's various trading venues and trading protocols.

At ICE mortgage services, eNote adoption and utilization of our e-registry continues. This year, through the end of September, nearly 80,000 eNotes have been created, which is almost 5x that of all of 2018. Lenders, servicers, investors and custodians are making the decision to go digital, and they're demanding efficient, more comprehensive solutions across the U.S. mortgage industry's workflow. And in September, Bakkt successfully launched its first-ever physically settled bitcoin future. And soon after, we successfully completed the first ever physical delivery of bitcoins pursuant to this regulated environment. These are important steps towards bringing trusted infrastructure to digital assets. In our experience, secure and regulated infrastructure is vital to investors and consumers, no matter what the asset class. And with trusted operations, state-of-the-art cybersecurity and end-to-end regulation, Bakkt hopes to establish user confidence and provide an ecosystem that can facilitate the broad adoption and secure transfer of digital assets.

I'll conclude my remarks on Slide 8. The third quarter was another example of strong execution across our platform. We delivered record revenues and record operating income. EPS grew double digits, and we continue to invest in future growth, all while returning a record amount of capital to our shareholders. As we look forward to the fourth quarter and beyond the 2020, we're excited about the growth opportunities that lie ahead. We've built a scalable platform, uniquely positioned to evolve and to grow, and we will continue to work closely with our customers and key industry participants to apply our technology and operational expertise to improve markets and create value for all of our stakeholders.

So I'd like to thank our customers for their business in the third quarter and thank my colleagues at ICE for their efforts that contributed to the very best quarter in our company's history. And with that, I'll turn the call back to Andrew, our moderator, to conduct the question-and-answer session until 9:30 Eastern Time.

Question-and-Answer Session

Operator

[Operator Instructions]. The first question comes from Richard Repetto of Sandler O'Neill.

Richard Repetto

So I guess the first question is on the data and listing segment. The ASV still is growing at that 5% clip, but I would say when you gave the guidance earlier on line-by-line, as far as pricing analytics and exchange data and desktops, et cetera, that the growth is sort of varying from what you gave initially. Scott, I guess, can you update us why that's changed? I guess, you could say some of the desktop connectivity, the Global Network has helped you but should we -- why the differences? And should we -- does it really make any difference, I guess.

Scott Hill

It's a good question, Rich. And I think it's instructive. I forget when, but Jeff made a comment a couple of calls ago that effectively -- the business we bought four years ago, sold one product that's sold bond prices. And each year, it would raise prices a couple of percent, and it would hope that it could have the similar retention with customers. What we've built is what I think Jeff referred to as a data superstore, where it's not just bond prices, it's prices, it's reference data, it's fee, it's connectivity solutions, it's -- by the way feeds that are real-time prices, and now, we've launched our data vault, which will give you historic prices. And so more and more, what we're able to do with customers is sell beyond just bond prices and to go beyond just what this year's 2% to 3% price increase will be. And so I do think the focus shouldn't necessarily be on a single line and really should look more at the collective, because that's what we're selling.

We're selling feeds, which is in exchange data. We're selling connectivity, which is in connectivity, and we're selling pricing and the reference data, which is in P&A. And just to kind of even it out, year-to-date, our growth in the data business has been 5%, pricing and analytics has been 5%, exchange data has been 6%, desktops and connectivity has been 6%. That's a pretty good balance, and it's because we have products and offerings that our customers need in each of those lines. And so did I think earlier in the year that pricing and analytics are going to be a little closer to 6%? I did, but I also didn't expect us to see quite the performance we have in connectivity. But again, we're selling what the customers want to buy, and I expect actually that the dynamics next year are going to be fairly similar. As I said, I think pricing and analytics growth is going to accelerate again into the fourth quarter. And I think it's positioned to grow 5%, 6% as we look into 2020. Connectivity, again, I think we're looking at a business next year that could generate another 4% or 5% growth on top of it. Exchange data is a little bit of a wildcard. If you think about our fourth quarter guidance, we got a bit of a drag, particularly related to the NYSE. So setting that wildcard aside, again, I think there's going to be a solid contribution from each of those businesses. And what we're focused on is a data business that grew 5% 3 years ago, grew 5% last year, going to grow 5% this year and is positioned to deliver the 4% to 6% model range that we've given again in 2020.

Richard Repetto

Got it. That's helpful, Scott. And my follow-up would be, I guess, to Jeff, and Ben. But on the ETF Hub, we got it launched. And from what I understand right now, it's focused on equity, ETFs and just the, I believe, it's just the creation and redeem and maybe -- probably secondary trading, too. But I guess my question is, given what you've seen so far, how does that make you feel about the transfer when you try to get the create redeem in fixed income. I know you got BlackRock, and that certainly helps. But what can -- have we learned in just the few weeks that we've got it up, that it can be transferred over to not only that primary create redeem but the secondary trading in fixed income? Or is it just too early to tell?

Benjamin Jackson

Thanks, Rich. It's Ben Jackson. Great question. And we're very excited about the controlled launch that we've had on the ETF Hub over the past couple of days of getting that up and off the ground with our partners as you highlighted. And our focus right now is really about building out the network. And the opportunity for both us and the customers is twofold. So -- and you touched on both areas. So first is the primary market. And when you think about the primary market, this is a completely underserved market today. There is not one independent provider of services that's providing a single marketplace, whereby multiple issuers can connect to multiple banks to really negotiate in both equities and fixed income, what is that acceptable basket of security.

So for an equity ETF, what is that basket of single name equities that I need go out and procure in order to swap with an issuer, that basket of equity securities for a single share of an equity ETF. And in fixed income, it's acquiring a basket of bonds that, when acceptable to that issuer, can be swapped in our marketplace for a single share of a fixed income ETF. For us, this is what we're replacing is issue -- either issuer provided systems, which are very bespoke, each issuer has their own. Some issuers have multiple in different asset classes. A lot of this is done over the phone, spreadsheets, it's manual and it's very disconnected. And what we're introducing to the marketplace for the first time is a single marketplace, whereby, again, multiple issuers and banks can perform this whole negotiation process and then can consummate that swap of the basket of securities for the ETF trend, for the ETF share and then settle that transaction. So this is 100% greenfield opportunity, and the industry has embraced this.

We have an advisory committee that's been a part of this, that consists of multiple big issuers as well as all the big banks and APs and market makers that are part of that. Our controlled launch is in equities, as you've mentioned, with BlackRock and several of the big APs and banks that were mentioned in a press release this past week, and we're going to be soon launching in the coming weeks fixed income. We feel really good about the network that we're starting to establish through the balance of 2019, it's going to be about continuing to build out that network and into 2020, around building out the functionality for multiple asset classes in that network in that primary trading environment.

The second thing you touched on is secondary trading. So secondary trading, so this is downstream of the hub. And this is the actual procurement of equity. So when you think of procuring equities to go into the basket, you can go to a venue like the New York Stock Exchange. In fixed income, and you all know a lot of the usual suspects in the institutional space and in fixed income trading platforms like Bloomberg, market access and trade web, those are the entities that have historically been downstream in the procurement of bonds to go into that [indiscernible] that once assembled, those bonds would then go into our primary marketplace to swap for that individual share of a fixed income ETF. For the first time, our venues are going to be downstream of this ETF creation and redemption process, helping to provide another choice for customers, either through our central order book platform, our RFQ platform or our portfolio auction platform. And again, this is a space we haven't played in prior, and the integration efforts that Jeff mentioned in his commentary around our completed integration with Charles River, in our -- in the coming weeks will be completed with our integration with Aladdin all helps us to really establish and build out this network. So we feel great about it.

Operator

The next question comes from Michael Carrier of Bank of America. Please go ahead.

Michael Carrier

Scott, maybe first one, just on expenses. So this quarter, a little bit better. You mentioned the onetime benefit, and even the fourth quarter looks pretty good. Just anything that's impacting the expense base on the synergy side? And then in an environment where we're seeing pretty healthy, like revenue growth, just wanted to get your view on some of the expense initiatives that you have in place, what we should be thinking about in terms of the incremental margin in the business?

Scott Hill

Thanks, Mike. It's a good question, and it's the right time of year to be thinking about that as we get ready to take the Board our 2020 budget. I'm sure you all starting to pay attention to your 2020 model. So I think, look, within the expense base, I think the key thing is, and I said it in my prepared remarks, if you think about 2019 and look at where we're landing right now, we're actually landing in the middle of our original guidance, even though we've added about $50 million from Simplifile and the accounting change to move some of the net to gross revenues around our revenue share agreement. That's been mitigated by about $20 million of onetime items. That notwithstanding, we're still sitting right in the middle of that original guidance. So the expense performance has been good. We delivered on the last of the $30 million of synergies, but then we've additionally been able to mitigate another $15 million to $20 million of expense on our more recent acquisitions.

And then in addition to that, just our normal expense management, which I think over the years, it has been demonstrated as a core competency of ours. And so as you start to think about next year, I think the model for next year is going to look a lot like it has the last couple of years, where we're going to reward our employees with a salary increase, consistent with what we've done in the past couple of years. We're going to have some expense growth that will be in support of revenue. You saw some of that. If you look at the tech line, for example, in the third quarter, that's reflective of good growth on the top line and some of the revenue share, which shows up in that line. So I think our overall expense performance this year has been very good, as you alluded to. And then I think as you think about 2020, if you look back at the way we've modeled and guided going into the last couple of years, it's going to look very similar.

Specific to the investments, I think part of the good news is ETF Hub is launched. That investment's in our run rate. Bakkt, we're now a year through. I expect there'll be some acceleration in that investment as we move into next year. But again, largely in the run rate that we've got. And so a lot of the initiatives that you hear us talk about are in the expense run rates that we've shown you. And again, that's an expense run rate that's led to us actually doing better than what we thought we would be entering this year.

Michael Carrier

Okay. That's helpful. And then just as a quick follow-up. There was a white paper out and some of the clients that use CCPs around, skin in the game again. Just more curious on your thoughts, if anything's changed or why this is coming up again in any new conversations with regulators, is anything is changing on that front?

Scott Hill

Yes. So thanks for the question, and I'll put my clearing head on and take my CFO head off for a moment. So I think a couple of things. I think first of all, they're not a lot new in that paper. These are things we've been hearing for five years. Number two, it's a relatively small number of signatories. Big important names in a lot of places, important partners and customers, but a small fraction of the people that actually participate in our markets. In terms of timing, I think there was an industry conference that Jeff just flew back from, and so the timing is not surprising because it gives you a venue to talk about things that you've been saying for five years and aren't particularly sticking. But I think the important thing is dig into the substance of it, right? So they want us to put 20% of the guarantee fund as our skin in the game, which effectively is we'll fund the risk that they bring to the clearinghouse. Because remember, clearinghouses don't create risk, we manage risk. We don't take a long position.

We take a long, and we take an offsetting short. We collateralize that with IM. By the way, IM that's based on models that a third-party validates, that a risk committee made up of clearing member approves, that a regulator approves and then an independent board approves. So the next time that I implement a risk model in one of our clearing houses with no oversight will be the first time and probably the last time for me in the job as well. So I think if you look at what's in the paper, we're very interested in a dialogue because, again, those are important partners and customers, but I do think that there's a little bit of a look over here and a request to try and mitigate some of the capital requirements on those firms versus a true view that there is some risk that needs to be managed. And so again, we're engaged in the dialogue. We are proactively taking steps to address some of the issues raised. But beyond being in the dialogue, I don't really expect it to move the needle. As I said, it's not particularly new, and it hasn't moved the needle in the last years.

Operator

The next question comes from Ken Worthington of JPMorgan.

Kenneth Worthington

Maybe first, can you talk about the penetration of the credit in muni markets and what sort of market share of those trading instruments you have done or what market share has done since your acquisitions of BondPoint and TMC? If shares increased, by about how much? And I know it's early in the implementation of your strategy as ETF Hub just turned on, but I'm sort of wondering about how the penetration of those markets is looking prior to some of your big initiatives getting underway.

Benjamin Jackson

Ken, it's Ben. Thanks for the question. On the volumes front, so one of the things I mentioned on, I believe it was the prior call, is that our platforms, when you look at them retroactively, look at them backwards looking, they were historically concentrated in the municipal space. And if you look at just MSRB volumes, they've been very tough. The municipal space has been a very, very tough area for all-comers this year. And the good news is, we're actually outperforming MSRB. But again, it's been a tough market in the municipal space. The good news that we have seen on the platform is that the volumes, that while munis have been tough, we have seen treasuries really grow strong. As with munis falling out of favor, treasuries have come into favor. Now in the past year, a little over a year that we've owned both platforms, our focus has been on integrating the businesses and getting the businesses operating together, which we've completed. So they're now in a single business called ICE bonds for us. We've actually executed on a project over the past year to develop self-clearing to be able to create a more efficient clearing platform of bonds underneath these businesses, which will help us lower the cost of running the businesses. And the third thing that we've been doing is consolidating the broker dealers, and that will be taking place in the early part of next year, again, providing more efficiency to the operation of those businesses.

In parallel to all that integration work, we have been heavily focused on the institutional initiatives underpinning these to really repurpose these businesses and to point them to where we see the real opportunity in the marketplace. And the things we've had to do is execute on building out our RFQ platform, which we've done, leveraging the expertise that we've had in the RFQ space in commodities for a number of years, and that represents 20% of our volumes. We've executed, as Jeff mentioned in his prepared remarks, on integrating to some of the big OMS platforms with CRD complete, with Charles River development complete and then Aladdin to be completed in the next couple of weeks. And we've also built out our portfolio auction capabilities, which, if you read any press articles, you can see that, that's an area that's been involved for both the buy-side and sell-side as a more efficient solution for executing trades. And to give you a sense on that portfolio auction side, we have, in a controlled launch type of manner, getting that portfolio auction off the ground.

We've been partnering with asset managers, as asset managers are oftentimes benchmarked to one of our indices. So one of the indexes that we bought from the Bank of America Merrill Lynch, or they can be benchmarked to a third-party index. When benchmarked to a third-party index or ours, our pricing and reference data, more often than not, is underpinning those indices as well as those asset managers. As in the asset manager space, we have well north of three quarters of the asset managers around the world utilize our data to strike their NAVs and have done that for decades. The ability for us to combine for an asset manager, a portfolio auction to be able to trade all of their -- the entire basket that they're looking to rebalance against the portfolio in a single trade and then also give them the ability to price that, either at where our prices are that they've been using for decades or as a spread to those prices, it's a pretty powerful combination. And we saw in the third quarter in one of the portfolio auctions, to give you an example, in a single trade, a notional size of $275 million went off on that single portfolio auction trade.

So this is something that we're looking to we've had some success with, and we're going to look to further engage with our customers in another area of growth. But again, on the execution side, what we see and our focus is on really building out our network, expanding our capabilities into the institutional space for execution, which is a space we've historically not been leveraging the strength that we have in our pricing, reference data and analytics businesses.

Jeffrey Sprecher

Ken, this is Jeff. If I could just underline what Ben said is, we didn't have a natural nexus into the execution of bond securities. And so -- and there are some very good companies that are in that space, as you're aware. So we were late, if you will, to building out an execution venue. But as Ben mentioned, we admitted and recognized that we were late.

And so we pivoted hard to build out all of the other things that we know tend to flow from having a good execution venue. And so we built out the data platform and are the predominant fixed income data provider now. And with $1 trillion of ETFs benchmarked against our indices now buying the MOVE volatility index, which is one of the major indices, buying the Bank of America, 5,000 indices that surround largely the fixed income space. We, in a way, leapfrogged where we would have otherwise been to have the back end and the ancillary benefits that we know come from having a strong execution venue. And so what Ben is working on is essentially levering off of that strong back end to move forward into the execution space, including, as he's talked extensively about, the ETF Hub, which is really at the root of where most demand is created for execution.

Operator

The next question comes from Dan Fannon of Jefferies.

Daniel Fannon

Just wanted to talk about M&A and kind of capital return as you think about next year. And can you just talk about the landscape today in terms of kind of how active you are in terms of what you're looking at for potential M&A, if it's different than other periods? And obviously, this past 12 months has been heavily focused on buybacks, and is that kind of a reasonable base case as we think about 2020?

Scott Hill

Yes, it's a good question. I think the simple short answer is our approach hasn't changed in terms of how we think about M&A, and it's how we approach it. Obviously, there are some interesting things that are going on in the landscape. But you've kind of seen over the last couple of years what our game plan is, and that is look at adjacent spaces where we think there's a market opportunity we can serve. A couple of years ago, it was buying the bond businesses, and Jeff just described the logic behind that strategy. More recently, we've been building a mortgage business and made some smaller acquisitions there. That's already $140 million run rate revenue business for us if you add Simplifile on a full year and with MERS. And the good news is, just linking over to your question about capital return, is we've been able to do those deals and grow our capital return. So we're going to end up returning over $2 billion this year, which is going to be around 20% more than we did last year, which was a record year, which was bigger than the year before that.

We've returned it through share buybacks, but we've also grown the dividend consistently double digits every year since we've implemented it. And effectively, as I said in my prepared remarks, and as we've consistently said over the years, our strategy is to grow our capital returns as we grow, to return 100% of the cash we don't need in deals. And with the strength of our balance sheet, we've been able to do both effectively. We've been able to do deals and return capital. And so we continue to monitor the environment. We look for deals that can generate the types of returns that our shareholders expect from us that can help us grow earnings that are an appropriate strategic fit that help us effectively make marketplaces better. And to the extent we find those, we'll go execute on them because we've proven that we're good at it. To the extent we don't find the right opportunity at the moment, we'll return capital as we have.

Jeffrey Sprecher

And I'll just mention that the market, the M&A market, the advisers and private equity firms and people that are at the core of transactions seem to like some of the deals that were done in our industry, where essentially, a company that was a public company that had a low multiple can move to a company that has a high multiple, and there'll be a multiple expansion. And same business, same company, different hands, different management team that the market likes better and you get a multiple expansion. And so we're being presented a lot of deals that -- because we have a good management team here, the people and a good multiple that many of you have helped reward us with, people are presenting deals that are simply multiple expansion deals. Those are interesting, but we have other metrics that we use, return on invested capital being one of them. Our ability to feel like, as a management team, we really could do something different than other management teams and/or that network provides some kind of acceleration of sales because of its unique distribution, those kinds of things that help us justify doing deals. But just pure multiple expansion or pure onetime gain, it just isn't the thing that we tend to look at because I'm not sure in the long run we would be rewarded. And I'm not sure in the long run this management team would leave a company for future management teams that would really be strong and have efficacy.

Operator

[Operator Instructions]. The next question comes from Alex Kramm of UBS.

Alexander Kramm

Just a follow-up on ETF Hub, a couple of things, actually. On the one hand, I think you're talking about the authorized participants and market makers that you've been adding, but I think the one thing that's been absent is other issuers. So I think there may be some on the advisory council, but where were you in that? Because I think the idea is to really drive an industry solution and standardization. And then just a quick one for Scott also on ETF Hub, I know it's early, but I think there are some connectivity fees. And so maybe can you just talk about the near-term revenue impact? And in particular, whether it'll show up? I mean, is this going to be like data revenues, that's going to be accreting to?

Benjamin Jackson

Alex, it's Ben. On the latter point that you brought up; I can hit it for Scott. But the focus in, and I commented on it and Jeff commented as well in his commentary, focus right now is really in building out that network. And in Jeff's prepared comments, he mentioned that BlackRock is a key development partner. We acknowledged and the industry acknowledged very early on that this is a pain point across the industry, across multiple issuers, because there is no single independent provider of services to really stitch this all together as a single marketplace, where banks and APs can very efficiently access multiple issuers through a single marketplace and through a single portal to execute their transactions. So we see this as we seen in any other marketplace, as a marketplace that when we partner closely with the industry and understand what the pain points are, that it's another one that we can help, provide some innovation to, provide some real efficiency to the marketplace.

And as you mentioned, Alex, we do have other issuers. The other major issuers that you can think of are all on the advisory committee. BlackRock was the early adopter to this and pushed this early on, but those other issuers are in the weeds and in detail with us, pounding through the requirements, working through and going through demos of how everything works, giving us constant feedback on it. And as we expand this marketplace, not only in equities where we started, but in the coming weeks into fixed income. Fixed income is the area of the marketplace that has really the most inefficiency. And as we get that functionality out and released, we're optimistic that the other issuers and all the feedback they've been providing and all the time that they've been spending and helping us build this out will come on board. But it's going to take time, and this is a real sea change for the marketplace as we're replacing a whole bunch of very analog manual types of processes that requires a real business change. So it's going to take time to play out in 2019 and 2020 and for that network to build, but we feel great about the position we're in right now.

Alexander Kramm

And Scott, do you have anything on the revenues? Will they show up?

Scott Hill

I think that was reflected in Ben's answer. I think the financial impact of this is going to be felt beyond 2020, and next year is really more about building out the network. So I think that's where things stand with regards to 2020.

Alexander Kramm

Fair enough. Just every little bit helps the data growth. So I just wanted to double check.

Scott Hill

It does, indeed.

Operator

The next question comes from Brian Bedell of Deutsche Bank.

Brian Bedell

Just maybe back on the data revenue. And thanks, Scott, for that detailed outlook on the pricing analytics and desktops. Obviously, the exchange side is the wildcard. Maybe just if you can comment on what drove that down sequentially this quarter? And as we think about that going forward, obviously, the NYSE is the drag on that. Am I right in thinking that's around $50 million or so revenue pool that could fluctuate or have a headwind? Just to think of how much of a drag that could be on that 5% to 6% data revenue growth rate. And I just wanted to confirm, mortgage documentation, is that $35 million in the quarter based on your $140 million comment?

Scott Hill

Yes. So I'll only give you a -- just a couple of data points on the exchange data. I said in my prepared remarks, in the third quarter that the 3% exchange data with 6% futures, and I didn't really say an NYSE number, but you can kind of do the math given they're balanced out. And if you kind of roll forward into the fourth quarter, and I've already seen a couple of notes that are kind of looking at the revenue guidance and where that will lead the growth, I said, we're going to accelerate growth in pricing and analytics. I said the connectivity growth is going to continue to be solid. And so again, in exchange data, it's going to be a story of futures, which is up 4% to 6%. And the average, it is probably close to flat, given the dynamics that we're seeing at the NYSE. And so when I say it's a wildcard, there is that issue. As I roll into next year, I don't expect it to be down. But I think Jeff said it the right way last time, it's not something that's really going to contribute to growth. It won't detract, but it won't contribute.

Jeffrey Sprecher

Yes, there's an interesting dynamic at the NYSE that I don't think it's fairly covered by the press, and I don't mean the press is unfair. I just mean I don't think they understand the nuance of -- the SEC has taken a lot of actions around exchange pricing of the NYSE and its peers, competitors. The press tends to act, the articles tend to suggest that the exchanges won't be able to raise prices. I think what's failed to be understood is that the exchanges actually can't even lower prices, and the exchanges can't really offer new products or bundles or do any other actions, things are frozen. So we actually have an interest in lowering some prices because we think it will stimulate more demand. Our demand and growth of data around the NYSE is heavily driven by new products and new services and new bundles and new ways of looking at things, not straight price increases. And it's really been an expansion. I think we have over 40 data products, the connectivity and data products at the exchange that have been built over the last decade or so. And it's that business that causes it to grow.

So as we think about budgeting for next year, we're just looking at a market where that it's likely frozen. And that's -- as you think about building your models, I mean, it's just that. And this is now the subject of litigation. Every single filing, the bank through SIFMA for years have been wanting to litigate. The exchanges are litigating back now, both within the SEC and in venues outside of the SEC. So there doesn't seem to be a quick resolution unless the industry wants to come together and figure out how to allow innovation around those products, which may or may not happen. There's certainly a lot of conversation going on around the data space.

Operator

The next question comes from Alex Blostein of Goldman Sachs.

Alexander Blostein

I want to go back to data services for a second, and Scott, appreciate the more kind of holistic approach to the segment, but really wanted to zone in on pricing and analytics. I think, historically, this has been viewed as kind of the fastest growth engine within the segment, and it looks like the dynamics are slowing down a little bit. If you look at ASV, it's up 5% year-over-year. I think this time last year, it was going to be up 8%. So I guess, taking a step back and looking under the hood a little bit, what are you seeing that's slowing down that growth? And looking ahead, what products do you expect to perhaps contribute more to the growth from here?

Scott Hill

Yes, it's a good question. Thanks. So I think the first thing I'd do just to put some numbers on the table because I can't help myself, we've grown our data business two years ago, last year, this year, 5%. And on average, pricing and analytics has grown closer to 5.5% on average over that same time period. So it has led the growth. And don't forget, that is the IDC business that used to grow 2% to 3%. And so we're growing it twice as fast, and it's because of all the dynamics I mentioned earlier that I won't repeat here. As we roll into next year, in a model -- data revenue model range on an organic basis of 4% to 6%, I mentioned, I think that business is closer to 6% next year. I said, we think we can grow overall 4% to 6%. I would say, again, pricing and analytics is going to lead the chart. I think that the dynamic that you're seeing in ASV simply reflects some of the sales activity we have, where, again, we've gone from a sales team that four years ago, had one tool in the kit, which was bond prices to a world where we have lots of tools in the kit.

And so we may be willing to take a short-term trade off on bond prices if you'll buy more reference data from us, if you'll let us become your feed provider, if you'll buy our historic data through our data vault. And so that tends to flush through a little bit in a specific lines ASV. But overall, it's good for the bottom line of the business in the next quarter and more importantly, over the next year or two because it sustains high retention levels. It gives us more ability to resell, it gives us pricing opportunity down the road, and so that's why I answered Richard's question earlier the way I did, which is I don't think you should get too hung up on it. And I think last quarter, Ken asked a similar question, where I said I'm not too focused on whether ASP in a particular quarter is 6% or 5% or 7%, as long as the overall ASV is kind of in that 4% to 6% range, which it is, again, this quarter, as you can see in the appendix slide. So I think the dynamic in pricing and analytics is actually a healthy one because while we may not see the yield directly in that line, we're seeing it in the other lines and importantly, on the bottom line.

Jeffrey Sprecher

And one other point I'd like to reiterate. I made a comment in my prepared remarks that we've tried to design this business so that it's not correlated to headcount in our customers. If you think about what we're doing, we've talked a lot to you all about the fact that we've got this amazing portfolio, and we like this notion of bundling. And so we are bundling enterprise solutions that are not headcount-oriented and it's why I think over time

-- because we do see consolidation in the space. I mean we were an early consolidator of exchanges and execution venues, but we've seen brokers consolidate, high-frequency traders consolidate, asset managers consolidate. We've seen a broad consolidation across the financial services landscape as scale matters, as capital is looking for global alpha. And so we have redesigned the way we go to market, and it seems to be working for us.

Operator

The next question comes from Owen Lau of Oppenheimer.

Owen Lau

Questions related to Bakkt. One of your competitors launched a bitcoin futures in December 2017, and it will probably take them over two years after the launch of bitcoin futures to launch bitcoin options. What kind of feedback did you get from your customers to facilitate your potential launch of bitcoin futures, just two months after your launch of bitcoin futures? And also, it seems that Bakkt would also enter into the consumer payment space. What are the key characteristics of a digital asset that would be most likely become the digital currency in this space?

Jeffrey Sprecher

Those are good questions. You've obviously been following along what we're doing there and looking between the margins. So really coming up with a regulated footprint for digital assets is something that is designed to attract traditional financial services players. Global retail customers have been very comfortable for whatever reason being early adopters on unregulated platforms that call themselves exchanges but really have no particular regulatory oversight, and it's not -- and lack transparency as to how consumer capital is being handled. And so we think there's an opportunity in what we're building out with Bakkt to bring that whole thing into a more transparent regulatory footprint and lend our expertise of regulation and trust, if you will, to these digital assets. The kind of institutions that are -- so first of all, all financial institutions are talking to us and looking at this and trying to figure out where this fits and what the global regulators are going to think about this and so on and so forth, so there's a tremendous amount of dialogue around it. But what you're seeing is the kinds of institutions that are coming into the space quickly that our institutional investors are new kinds of crypto hedge funds, crypto market makers.

Many of these are players we know who have started an offshoot of their business to deal with digital assets. And the major banks are working with us, the major brokers are working with us, but still trying to figure out how this fits into their own ecosystem. And they know that when they do move into this space, it's got to be it's got to be regulated and approved by their own regulators. As we have been dealing with Bakkt backdrop, very quickly, people said that there's an active options market for bitcoin out there that is even less transparent in most cases than the cash market, and a lot of it is done OTC. It's OTC brokers and what have you, but there's a strong interest in having options. It just so happens that the way we've launched our bitcoin futures contract is that we are a source of price discovery because we're physically delivered. We're not dependent on the prices that come out of these unregulated cash markets. We develop our own settlement price, and so that it lends itself very nicely to an options market where people that trade options and hedge with the underlying can have perfect hedging in one venue that they know is transparent. So that was the pressure to get the options out quickly.

On the payment side, we think that the digital asset space has largely been a speculative space that with speculators, speculating on the future value, the future efficacy, the future use cases of many of the digital tokens that exist. And we don't think that, that whole space will be relevant and grow unless there are real use cases. And we do, as you pointed out, I think that a use case is going to be the digital transfer of value through payments. And a bitcoin, which is where we have most of our focus is one digital token that could potentially be used for payments but has also, because of its mining capabilities and the way it's been developed, is really a store of value. Now I argue, I'm an old guy, and I argue to the younger people that work at Bakkt, and it's very much a younger workforce that's there, engineers that we've hired from many of the payment companies around the world. They view bitcoin as a digital gold. But I, because I'm old, I think of gold became a store value because at one point, it was a currency. We had gold coins, it was in circulation. And over time, because of the nature of its ability to spend that over time, it got hoarded and became a store value.

And today, in a crisis, we all accept gold as a form of payment. And in fact, the very first product that we launched at Intercontinental Exchange in year 2000 was an overnight gold contract that was used interbank to settle differences between trading by sending actual gold receipts as opposed to currency. So I do think bitcoin will have an element of payments and as well as a store of value because it may well be that rather than convert bitcoin to fiat currency and then use fiat currency to buy goods and services that merchants and users will accept bitcoin directly, and you'll avoid the foreign exchange, if you will, the FX cost of converting back and forth the fiat. And so we are building out that digital platform, in one of -- we have probably 50 people dedicated to building out the infrastructure, and it's quite an exotic and unique thing that I think you'll see us rollout as we move into 2020, and we'll test the old guy's thesis here.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Jeff Sprecher for any closing remarks.

Jeffrey Sprecher

Well, thank you, Andrew. I appreciate you moderating the panel, and thanks for everybody on the call. We'll look forward to updating you about our year-end results on the next one. Have a good day.

Operator

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