Intercontinental Exchange Inc. (ICE)

Updated December 9th, 2020 by Prakash Kolli

Key Metrics

Current Price:	$110	**5 Year CAGR Estimate:**	6.8%	**Market Cap:**	$61.9B
Fair Value Price:	$94	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	12/15/20
% Fair Value:	117%	**5 Year Valuation Multiple Estimate:**	-3.2%	**Dividend Payment Date:**	12/31/20
Dividend Yield:	1.1%	**5 Year Price Target**	$144	**Years Of Dividend Growth:**	7
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	9.1%

Overview & Current Events

Intercontinental Exchange Inc is an operator of financial exchanges. The company owns the New York Stock Exchange, operates a derivatives exchange, operates an electronic marketplace for futures and over the counter energy contracts, and owns the leading soft commodity exchange. ICE also offers pricing and market data, risk management, and trading support. The firm has two reporting segments: Trading & Clearing, and Data & Listings. Revenue is split at roughly 49% to 51% between the two. Total revenue in 2019 was $6.54B.

ICE reported mixed Q3 2020 results on October 29, 2020. Net revenue increased 6% to $1,411M from $1,336M and adjusted diluted earnings per share fell (3%) to $1.03 from $1.06 on year-over-year basis. On a GAAP basis, diluted earnings per share declined (24%) to $0.71 from $0.94 in comparable periods. Adjusted operating margins were down 4% at 61% in the comparable periods.

Trading & Clearing revenue increased 6% to $711M in the quarter from $669M in the prior year driven by a large increase in Fixed income & credit (+89%) from Ellie Mae contributions, and smaller increases in OTC & other (+13%) and other (+12%). Energy (-14%), Ags & metals (-11%), and Financials (-16%) all declined. Cash equities and equity options were flat. Revenue for Data & Listing increased 5% to $700M for the quarter from $667M in the prior year driven by increases in Pricing & Analytics up 5%, Exchange Data and Feeds up 9%, and Desktops and Connectivity up 3%.

ICE is benefitting from higher volatility and trading during the coronavirus pandemic. The firm is also expanding its Mortgage Services business having acquired of Ellie Mae for $11B for 84% cash and 11% ICE stock. The company took on a large amount of debt for this acquisition.

Growth on a Per-Share Basis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
EPS	$1.07	$1.38	$1.50	$1.63	$1.93	$2.43	$2.78	$2.95	$3.59	$3.88	***$4.47***	***$6.88***
DPS	--	--	--	$0.13	$0.52	$0.58	$0.68	$0.80	$0.96	$1.10	***$1.20***	***$2.11***
Shares[1]	367	362	362	575	565	595	595	596	569	604	***598***	***569***

ICE has grown the bottom line at a good clip since the last recession driven by both organic growth and acquisitions. ICE is an acquisitive company and bought NYSE Euronext in 2013 and Interactive Data in 2015 adding substantially to the top line. But the additional shares issued for the two purchases kept a lid on earnings per share growth. Organic growth will come from increased trading over time and new market and pricing data products. We have increased our earnings growth estimates for ICE. The company increased adjusted earnings per share at ~18% rate from 2006 to 2018. We are now forecasting on average annual 12% earnings per share growth out through 2025 accounting for the historical growth rates offset by weak global economies and COVID-19. ICE initiated a dividend in 2013 and grew it at a double-digit rate since then, but the current yield is below the broader market average. We are forecasting on average 12% annual growth rate in the dividend. The current payout ratio is relatively low at only ~27% and thus there is room for further increases. The company has not conducted significant share buybacks in the past but that will change in the future as a $2.4B share repurchase was authorized at the start of 2020.

[1] Share count in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Valuation Analysis

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	Now	2025
Avg. P/E	20.5	17.5	17.3	21.6	21.1	19.3	18.8	21.5	20.7	22.0	***24.7***	***21.0***
Avg. Yld.	--	--	--	--	0.4%	1.3%	1.2%	1.3%	1.3%	1.3%	***1.1%***	***1.5%***

ICE's stock price has traded higher since our last report and is setting new 52-week and all-time highs. We have bumped up our 2020 earnings estimates again as ICE is having a solid year during the pandemic. Still, the stock is trading at an elevated valuation. Our fair value estimate is now $94. Our 5-year price target is now $144.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2025
Payout	--	--	--	8%	27%	24%	24%	27%	27%	28%	***27%***	***31%***

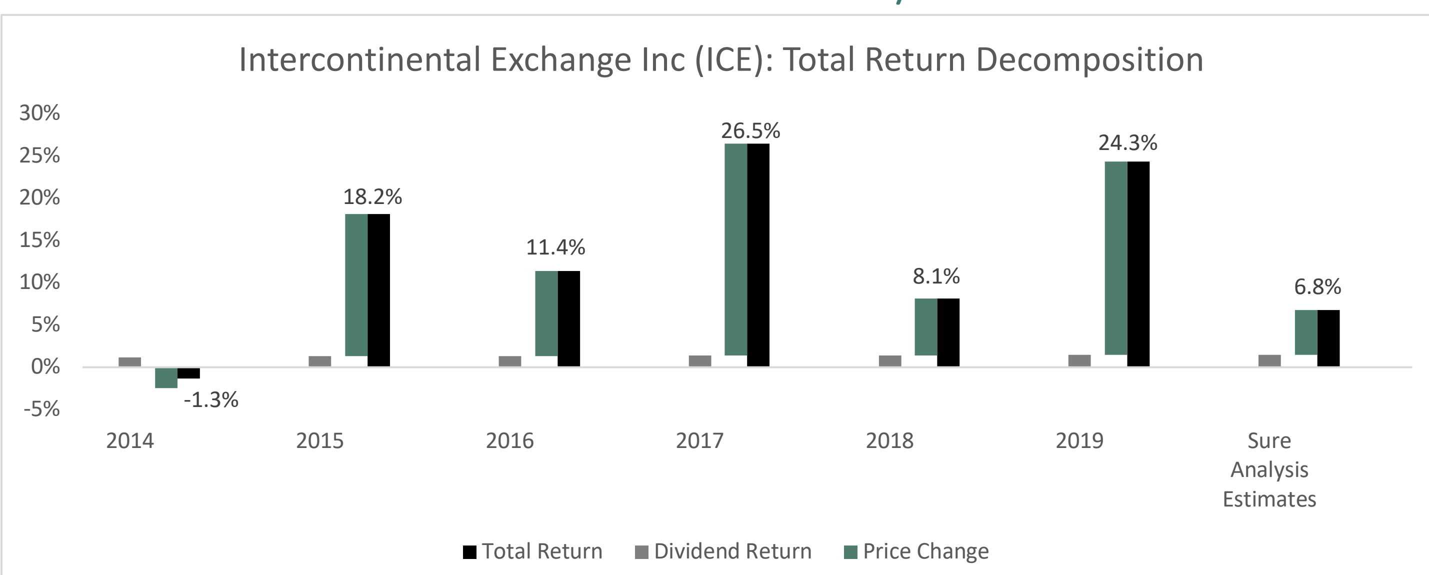
ICE's competitive advantage is its scale in trading, the NYSE brand, proprietary exchange products, and proprietary data in commodity futures and fixed-income data. The company can provide unique datasets that competitors do not have access to. Since datasets between competitors are not similar, ICE has a significant advantage for data derived from its exchanges. ICE does face some risks in changing regulatory environments and a decline in trading volumes. A downturn in trading activity during a recession will likely reduce ICE's top and bottom lines. During the Great Recession EPS exhibited a significant sequential quarterly decline from $0.26 in Q1 2008 to a bottom of $0.13 in Q4 2008 before recovering through 2009. By Q1 2010 quarterly EPS had returned to $0.27. The stock price declined severely during this time. Lastly, there is the omnipresent threat of cyber-attacks.

Short-term debt was $2,463M and long-term debt was $14,869M at end of Q3 2020. This was offset by $610M in cash. The leverage ratio is now over 4.7X and interest coverage is about 8.0X

Final Thoughts & Recommendation

At present we are forecasting a 6.8% total annualized return through 2025. The firm has acquired Ellie Mae to expand into mortgage services. But ICE took on substantial debt to do so and the leverage ratio is now high. The stock is trading near its all-time high. At the current stock price and valuation, we rate this equity a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Revenue	1150	1327	1363	1730	4352	4682	5971	5843	6276	6547
Gross Profit		1327	1363	1598	3092	3338	4512	4638	4979	5202
Gross Margin		100%	100%	92.4%	71.0%	71.3%	75.6%	79.4%	79.3%	79.5%
SG&A Exp.	366	386	386	509	1182	1126	1650	1688	1776	1865
D&A Exp.	121	132	131	156	333	374	610	535	586	662
Operating Profit	662	809	846	933	1577	1838	2252	2415	2617	2675
Operating Margin	57.6%	61.0%	62.1%	53.9%	36.2%	39.3%	37.7%	41.3%	41.7%	40.9%
Net Profit	398	510	552	254	981	1274	1430	2526	1988	1933
Net Margin	34.6%	38.4%	40.5%	14.7%	22.5%	27.2%	23.9%	43.2%	31.7%	29.5%
Free Cash Flow	486	626	665	556	1264	1034	1784	1728	2253	2354
Income Tax	202	238	228	184	402	358	586	-28	500	521

Balance Sheet Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Total Assets	26642	36148	37215	64422	68254	77987	82003	78264	92791	94493
Cash & Equivalents	622	823	1612	961	652	627	407	535	724	841
Accounts Receivable	114	136	127	546	508	700	777	903	953	988
Goodwill & Int. Ass.	2807	2757	2737	18512	16315	22837	22711	22485	23547	23600
Total Liabilities	23825	32986	33538	52041	55862	63147	66249	61279	75560	77207
Accounts Payable	65	66	70	477	546	514	519	590	626	643
Long-Term Debt	579	888	1132	5058	4277	7308	6364	6100	7441	7819
Shareholder's Equity	2778	3122	3644	12349	12360	14808	15717	16957	17201	17255
D/E Ratio	0.21	0.28	0.31	0.41	0.35	0.49	0.40	0.36	0.43	0.45

Profitability & Per Share Metrics

Year	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Return on Assets	1.6%	1.6%	1.5%	0.5%	1.5%	1.7%	1.8%	3.2%	2.3%	2.1%
Return on Equity	15.4%	17.3%	16.3%	3.2%	7.9%	9.4%	9.4%	15.5%	11.6%	11.2%
ROIC	13.0%	13.7%	12.5%	2.3%	5.8%	6.6%	6.5%	11.2%	8.3%	7.8%
Shares Out.	367	362	362	575	565	595	595	596	569	565
Revenue/Share	3.09	3.59	3.73	4.38	7.60	8.38	9.97	9.84	10.84	11.59
FCF/Share	1.31	1.69	1.82	1.41	2.21	1.85	2.98	2.91	3.89	4.17

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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