Intercontinental Exchange Inc. (ICE)

Updated November 22nd, 2021 by Prakash Kolli

Key Metrics

Current Price:	$133	**5 Year CAGR Estimate:**	5.5%	**Market Cap:**	$75.10B
Fair Value Price:	$107	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	12/16/21
% Fair Value:	124%	**5 Year Valuation Multiple Estimate:**	-4.3%	**Dividend Payment Date:**	12/31/21
Dividend Yield:	1.0%	**5 Year Price Target**	$165	**Years Of Dividend Growth:**	9
Dividend Risk Score:	B	**Retirement Suitability Score:**	D	**Last Dividend Increase:**	10%

Overview & Current Events

Intercontinental Exchange, Inc. is an operator of financial exchanges and mortgage technology. 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 company acquired Ellie Mae in 2020 for $11B expanding into mortgage technology services. The firm now has three reporting segments: Exchanges (60%), Fixed Income and Data Services (30%), Mortgage Technology (10%). Total revenue in 2020 was $6.04B.

ICE reported strong Q3 2021 results on October 28, 2021. Net revenue increased 27% (+11% pro forma) to $1,802M from $1,411M and adjusted diluted earnings per share rose 34% to $1.30 from $0.97 on year-over-year basis. On a GAAP basis, diluted earnings per share rose 58% to $1.12 from $0.71 in comparable periods. ICE benefitted from higher revenue driven by more trading and additional revenue from the Ellie Mae acquisition.

Exchanges segment revenue increased 17% to $959M in the quarter from $818M in the prior year driven by increases in Energy (+38%), Financials (+24%), and Ags and metals (+5%), Cash and Equity Options (+7%), OTC and Other (+14%), Data and Connectivity (+3%) and Listings (+10%). Fixed Income and Data Services segment revenue increased 6% to $477M from $450M in comparable periods driven by increases in Fixed Income Data and Analytics (+5%), Other Data and Network (+9%), and CDS Clearing (+9%) offset by Fixed Income Execution (-18%). Mortgage Technology segment revenue was $366M versus $343M (pro forma) in the prior quarter. Low interest rates, renewed home buying, and mortgage refinancing as the pandemic wanes is driving transaction volumes.

ICE agreed to sell its 9.85% stake in Euroclear for 709M Euros. The transaction should close in the first half of 2022.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	$1.38	$1.50	$1.63	$1.93	$2.43	$2.78	$2.95	$3.59	$3.88	$4.51	***$5.10***	***$7.85***
DPS	--	--	$0.13	$0.52	$0.58	$0.68	$0.80	$0.96	$1.10	$1.20	***$1.32***	***$2.33***
Shares[1]	362	362	575	565	595	595	596	569	604	561	***555***	***528***

ICE has grown the bottom line at a good clip since the Great Recession driven by both organic growth and many acquisitions. ICE is an acquisitive company and bought several companies including NYSE Euronext in 2013, Interactive Data in 2015, and Ellie Mae in 2020, adding to the top line. But the additional shares issued for the purchases have kept a lid on earnings per share growth. Organic growth will come from increased trading, new market and pricing data products, and mortgage origination. The company increased adjusted earnings per share at ~18% rate from 2006 to 2018. We are now forecasting on average annual 9% earnings per share growth out through 2026 accounting for slowing growth rates. 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 due to the low payout ratio of ~26%. 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	17.5	17.3	21.6	21.1	19.3	18.8	21.5	20.7	22.0	24.8	***26.1***	***21.0***
Avg. Yld.	--	--	--	0.4%	1.3%	1.2%	1.3%	1.3%	1.3%	1.1%	***1.0%***	***1.4%***

ICE's stock price is up since our last report and is trading near its all-time high. ICE had a strong 2020 and momentum has continued into 2021. We have increased our 2021 earnings estimate to $5.10 per share to match consensus. Our fair value multiple is 21X, which is near the 5-year average. Our fair value estimate is $107. Our 5-year price target is $165.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	--	8%	27%	24%	24%	27%	27%	28%	27%	27%	***26%***	***30%***

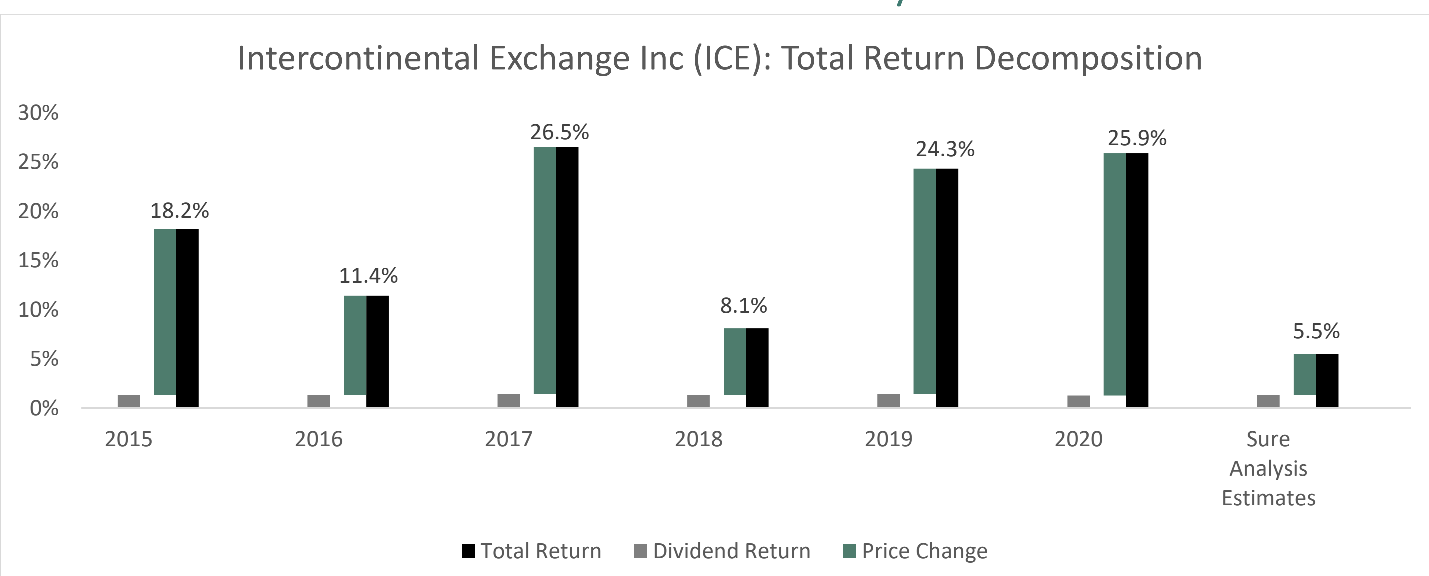
ICE's competitive advantage is its scale in trading, the NYSE brand, proprietary exchange products, data in commodity futures and fixed-income data, and mortgage technology. The company can provide unique datasets that competitors do not have access to. Since datasets between competitors are not similar, 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 volume 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 or disruptions to trading.

Short-term debt was $1,831M and long-term debt was $12,394M at end of Q3 2021. This was offset by only $618M in cash. The leverage ratio is now over 3.1X and interest coverage is about 7.9X

Final Thoughts & Recommendation

At present we are forecasting a 5.5% total annualized return through 2026. The firm acquired Ellie Mae and is integrating the company and pursuing efficiencies. ICE's leverage ratio is high but now coming down. ICE is focused on shareholder returns through the dividend and share repurchases. At the current stock price, we rate this equity a hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	1327	1363	1730	4352	4682	5971	5843	6276	6547	8244
Gross Profit	1077	1112	1296	2500	2727	3559	3692	3985	4160	4848
Gross Margin	81.2%	81.6%	74.9%	57.4%	58.2%	59.6%	63.2%	63.5%	63.5%	58.8%
SG&A Exp.	136	135	207	590	515	697	742	782	823	959
D&A Exp.	132	131	156	333	374	610	535	586	662	751
Operating Profit	809	846	933	1577	1838	2252	2415	2617	2675	3138
Operating Margin	61.0%	62.1%	53.9%	36.2%	39.3%	37.7%	41.3%	41.7%	40.9%	38.1%
Net Profit	510	552	254	981	1274	1430	2526	1988	1933	2089
Net Margin	38.4%	40.5%	14.7%	22.5%	27.2%	23.9%	43.2%	31.7%	29.5%	25.3%
Free Cash Flow	626	665	556	1264	1034	1784	1728	2253	2354	2471
Income Tax	238	228	184	402	358	586	-28	500	521	658

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	36148	37215	64422	68254	77987	82003	78264	92791	94493	126200
Cash & Equivalents	823	1612	961	652	627	407	535	724	841	583
Accounts Receivable	136	127	546	508	700	777	903	953	988	1230
Goodwill & Int. Ass.	2757	2737	18512	16315	22837	22711	22485	23547	23600	35699
Total Liabilities	32986	33538	52041	55862	63147	66249	61279	75560	77207	106666
Accounts Payable	66	70	477	546	514	519	590	626	643	846
Long-Term Debt	888	1132	5058	4277	7308	6364	6100	7441	7819	16537
Shareholder's Equity	3122	3644	12349	12360	14808	15717	16957	17201	17255	19498
D/E Ratio	0.28	0.31	0.41	0.35	0.49	0.40	0.36	0.43	0.45	0.85

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	1.6%	1.5%	0.5%	1.5%	1.7%	1.8%	3.2%	2.3%	2.1%	1.9%
Return on Equity	17.3%	16.3%	3.2%	7.9%	9.4%	9.4%	15.5%	11.6%	11.2%	11.4%
ROIC	13.7%	12.5%	2.3%	5.8%	6.6%	6.5%	11.2%	8.3%	7.8%	6.8%
Shares Out.	362	362	575	565	595	595	596	569	604	598
Revenue/Share	3.59	3.73	4.38	7.60	8.38	9.97	9.84	10.84	11.59	14.85
FCF/Share	1.69	1.82	1.41	2.21	1.85	2.98	2.91	3.89	4.17	4.45

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