Intercontinental Exchange Inc. (ICE)

Updated February 16th, 2022 by Prakash Kolli

Key Metrics

Current Price:	$126	**5 Year CAGR Estimate:**	8.7%	**Market Cap:**	$70.36B
Fair Value Price:	$117	**5 Year Growth Estimate:**	9.0%	**Ex-Dividend Date:**	03/16/22
% Fair Value:	107%	**5 Year Valuation Multiple Estimate:**	-1.4%	**Dividend Payment Date:**	03/31/22
Dividend Yield:	1.2%	**5 Year Price Target**	$181	**Years Of Dividend Growth:**	10
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	15.2%

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%), and Mortgage Technology (10%). Total revenue in 2021 was $7.1B.

ICE reported good Q4 2021 and full year results on February 3, 2022. Net revenue increased 10% to $1,840M from $1,671M and adjusted diluted earnings per share rose 17% to $1.34 from $1.15 on year-over-year basis. On a GAAP basis, diluted earnings per share rose to $2.70 from $0.93 in comparable periods. ICE benefitted from higher revenue driven by more trading on exchanges and fixed income services offset by mortgage technology.

The Exchanges segment revenue increased 17% to $1,014M in the quarter from $871M in the prior year driven by increases in Energy (+28%), Financials (+37%), Ags (+7%), Cash and Equity Options (+2%), OTC & Other (+13%), Data and Connectivity (+7%) and Listings (+10%). Fixed Income and Data Services segment revenue increased 7% to $480M from $450M in comparable periods driven by increases in Fixed Income Data and Analytics (+6%), Other Data and Network (+7%), and CDS Clearing (+14%) offset by Fixed Income Execution (-12%). Mortgage Technology segment revenue was down (-1%) to $346M versus $350M in the prior year. Transaction volumes are being impacted by higher mortgage rates and low inventory.

ICE recognized a $1.4B gain upon deconsolidation of Bakkt, a crypto exchange platform.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
EPS	$1.50	$1.63	$1.93	$2.43	$2.78	$2.95	$3.59	$3.88	$4.51	$5.61	***$5.59***	***$8.60***
DPS	--	$0.13	$0.52	$0.58	$0.68	$0.80	$0.96	$1.10	$1.20	$1.32	***$1.52***	***$2.68***
Shares[1]	362	575	565	595	595	596	569	604	561	***555***	***550***	***523***

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 ~17% rate from 2006 to 2021. We are now forecasting on average annual 9% earnings per share growth out through 2027 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 ~27%. 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.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	17.3	21.6	21.1	19.3	18.8	21.5	20.7	22.0	24.8	21.3	***22.6***	***21.0***
Avg. Yld.	--	--	0.4%	1.3%	1.2%	1.3%	1.3%	1.3%	1.2%	1.1%	***1.2%***	***1.5%***

ICE's stock price is down since our last report on a weaker outlook. ICE had a strong 2020 and 2021 due to volatility and acquisitions. We have pegged our 2022 earnings estimate at $5.59 per share to match consensus. Our fair value multiple is 21X, which is near the 5-year average. Our fair value estimate is $117. Our 5-year price target is $181.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	--	8%	27%	24%	24%	27%	27%	28%	27%	24%	***27%***	***31%***

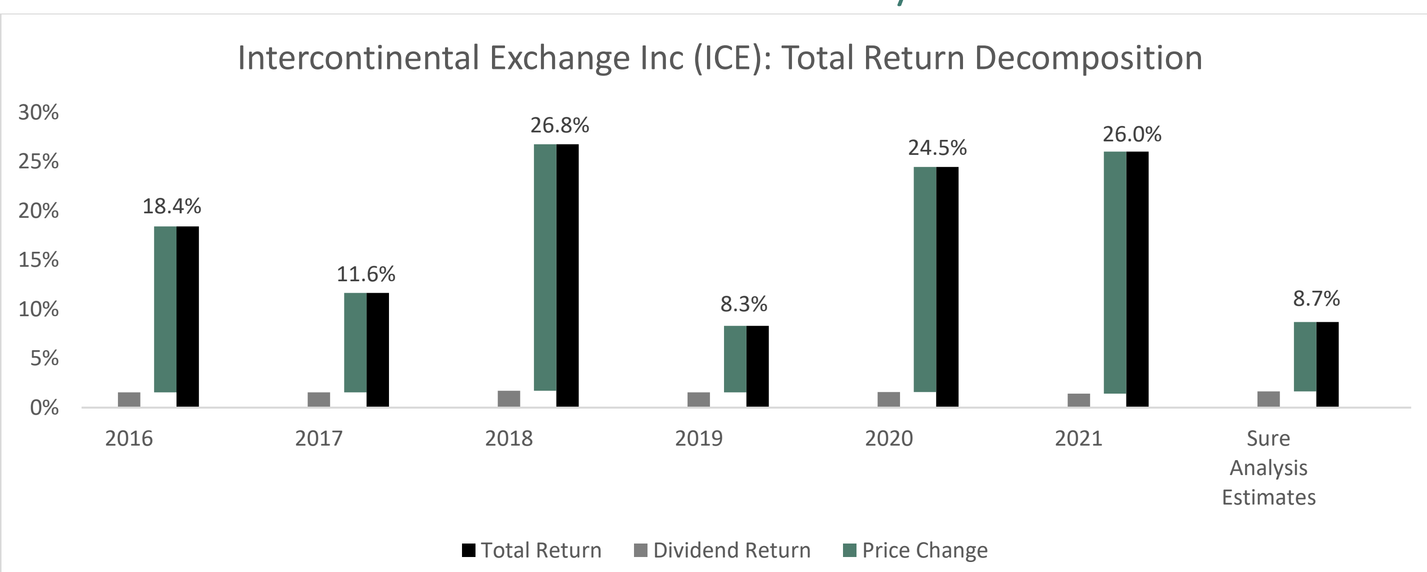
ICE's competitive advantage is its scale in trading, the NYSE brand, proprietary exchange products, data in commodity futures and fixed-income data, and mortgage technology. The company can provide unique datasets that competitors do not have access to. Since datasets between competitors are not similar, 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 $1,521M and long-term debt was $12,397M at end of Q4 2021. This was offset by only $607M in cash. The leverage ratio is now over 3.1X and interest coverage is about 8.4X

Final Thoughts & Recommendation

At present we are forecasting an 8.7% total annualized return through 2027. 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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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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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	1363	1730	4352	4682	5971	5843	6276	6547	8244	9168
Gross Profit	1112	1296	2500	2727	3559	3692	3985	4160	4848	5018
Gross Margin	81.6%	74.9%	57.4%	58.2%	59.6%	63.2%	63.5%	63.5%	58.8%	
SG&A Exp.	135	207	590	515	697	742	782	823	959	458
D&A Exp.	131	156	333	374	610	535	586	662	751	1009
Operating Profit	846	933	1577	1838	2252	2415	2617	2675	3138	3551
Operating Margin	62.1%	53.9%	36.2%	39.3%	37.7%	41.3%	41.7%	40.9%	38.1%	
Net Profit	552	254	981	1274	1430	2526	1988	1933	2089	4058
Net Margin	40.5%	14.7%	22.5%	27.2%	23.9%	43.2%	31.7%	29.5%	25.3%	
Free Cash Flow	665	556	1264	1034	1784	1728	2253	2354	2471	2671
Income Tax	228	184	402	358	586	-28	500	521	658	1629

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	37215	64422	68254	77987	82003	78264	92791	94493	126200	193500
Cash & Equivalents	1612	961	652	627	407	535	724	841	583	607
Accounts Receivable	127	546	508	700	777	903	953	988	1230	1280
Goodwill & Int. Ass.	2737	18512	16315	22837	22711	22485	23547	23600	35699	34860
Total Liabilities	33538	52041	55862	63147	66249	61279	75560	77207	106666	170750
Accounts Payable	70	477	546	514	519	590	626	643	846	703
Long-Term Debt	1132	5058	4277	7308	6364	6100	7441	7819	16537	13290
Shareholder's Equity	3644	12349	12360	14808	15717	16957	17201	17255	19498	22710
LTD/E Ratio	0.31	0.41	0.35	0.49	0.40	0.36	0.43	0.45	0.85	0.61

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	1.5%	0.5%	1.5%	1.7%	1.8%	3.2%	2.3%	2.1%	1.9%	2.5%
Return on Equity	16.3%	3.2%	7.9%	9.4%	9.4%	15.5%	11.6%	11.2%	11.4%	19.2%
ROIC	12.5%	2.3%	5.8%	6.6%	6.5%	11.2%	8.3%	7.8%	6.8%	11.1%
Shares Out.	362	575	565	595	595	596	569	604	598	565
Revenue/Share	3.73	4.38	7.60	8.38	9.97	9.84	10.84	11.59	14.85	16.23
FCF/Share	1.82	1.41	2.21	1.85	2.98	2.91	3.89	4.17	4.45	4.73

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