Intercontinental Exchange Inc. (ICE)

Updated November 16th, 2023 by Prakash Kolli

Key Metrics

Current Price:	$111	**5 Year CAGR Estimate:**	10.6%	**Market Cap:**	$63.22B
Fair Value Price:	$117	**5 Year Growth Estimate:**	8.0%	**Ex-Dividend Date:**	12/13/23
% Fair Value:	95%	**5 Year Valuation Multiple Estimate:**	1.1%	**Dividend Payment Date:**	12/29/23
Dividend Yield:	1.5%	**5 Year Price Target**	$172	**Years Of Dividend Growth:**	11
Dividend Risk Score:	B	**Retirement Suitability Score:**	C	**Rating:**	Buy

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 2022 was $7.3B.

ICE reported Q3 2023 results on November 2nd, 2023. Net revenue grew 9% to $2,003M from $1,811M and adjusted diluted earnings per share rose 11% to $1.46 from $1.31 on a year-over-year basis. On a GAAP basis, diluted earnings per share increased to $0.96 from a loss of ($0.34) in comparable periods. ICE benefitted from higher revenue driven by exchange and fixed income services growth offset by much weaker mortgage origination and closing.

The Exchanges segment revenue increased 11% to $1,114M in the quarter from $1,001M in the prior year driven by increases in Ags (+7%), Data and Connectivity (+8%), Cash and Equity Options (+8%), and Energy (+45%), offset by OTC & Other (-15%), Listings (-4%), and Financials (-8%). Fixed Income and Data Services segment revenue increased 5% to $559M from $534M in comparable periods driven by increases in Fixed Income Execution (+10%), Other Data and Network (+7%), CDS Clearing (+6%), and Income Data and Analytics (+2%). Mortgage Technology segment revenue was down (-13%) to $172M versus $197M in the prior year. Origination volumes are (-13%) lower due to higher mortgage rates and low inventory, Closings fell (-14%), but Data & Analytics (+76%), and Servicing Software grew.

ICE completed the Black Knight acquisition, a mortgage technology company, for $13B in cash and stock.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	$1.63	$1.93	$2.43	$2.78	$2.95	$3.59	$3.88	$4.51	$5.61	$5.30	***$5.59***	***$8.21***
DPS	$0.13	$0.52	$0.58	$0.68	$0.80	$0.96	$1.10	$1.20	$1.32	$1.52	***$1.68***	***$2.83***
Shares[1]	575	565	595	595	596	569	604	561	561	556	***550***	***524***

ICE has grown the bottom line at a good clip since the Great Recession driven by organic growth and many acquisitions. ICE is an acquisitive company and bought several firms 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. Over time, organic growth will come from increased trading, new market and pricing data products, and mortgage origination. The company increased adjusted earnings per share at a roughly 16% rate from 2006 to 2022. We are now forecasting on average annual 8% earnings per share growth out through 2028, 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 low. We are forecasting on average 11% annual growth rate in the dividend due to the low payout ratio of ~30%. The company has a $2.4B share repurchase authorization, which was then suspended because of the Black Knight deal.

[1] Share count in millions.

Intercontinental Exchange Inc. (ICE)

Updated November 16th, 2023 by Prakash Kolli

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	21.6	21.1	19.3	18.8	21.5	20.7	22.0	24.8	23.3	20.5	***19.9***	***21.0***
Avg. Yld.	0.4%	1.3%	1.2%	1.3%	1.3%	1.3%	1.3%	1.2%	1.1%	1.4%	***1.5%***	***1.6%***

ICE's stock price is down slightly since our last report. The company's mortgage segment is facing significant headwinds and uncertainty about the Black Knight acquisition. We updated our 2023 earnings estimates to consensus. Our fair value multiple is 21X, which is near the 10-year average. Our fair value estimate is $117. Our 5-year price target is $172.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	8%	27%	24%	24%	27%	27%	28%	27%	24%	29%	***30%***	***34%***

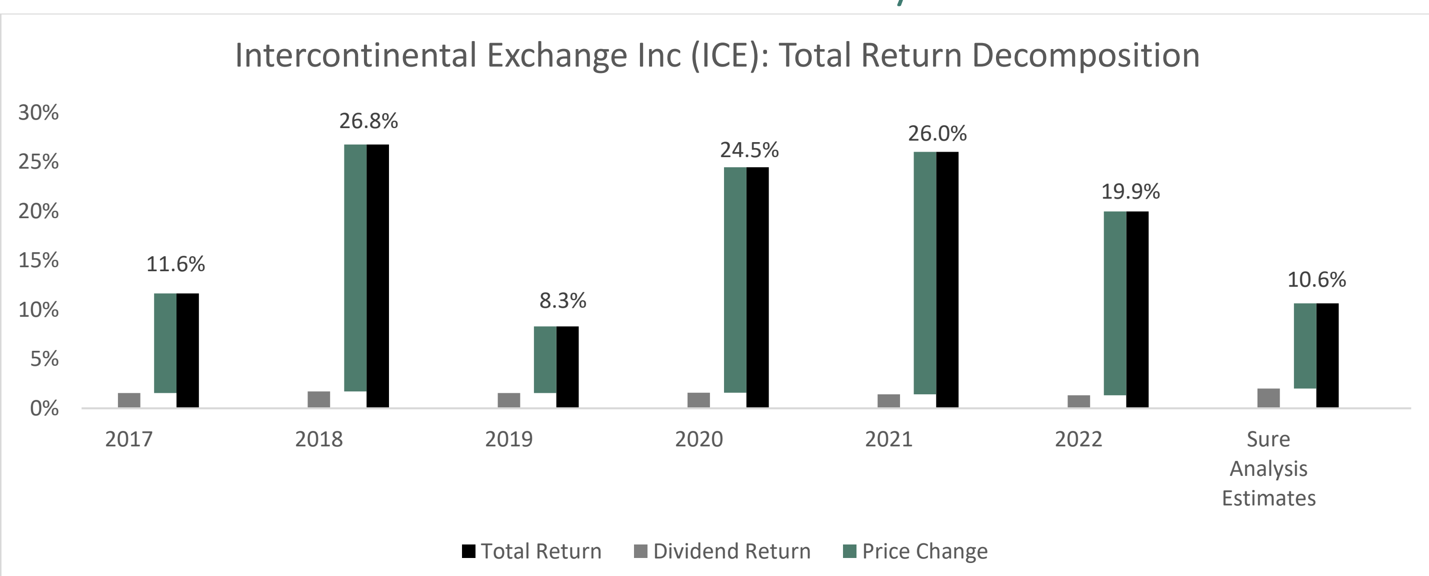
ICE's competitive advantage is its scale in trading, the NYSE brand, proprietary exchange products, data in commodity futures and fixed-income data, and mortgage technology. The company can provide unique datasets from its exchanges that competitors do not have access to. ICE does face risks in changing regulatory environments, lower home sales, 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. Next, there is the omnipresent threat of cyber-attacks or disruptions to trading.

ICE took on significant debt and leverage to build its mortgage business at a time when interest rates are rising, creating some risk. Short-term debt was $2,257M and long-term debt was $21,0423M at end of Q3 2023. This was offset by $1,308M in cash and marketable securities. The leverage ratio is now over 4.8X and interest coverage is about 5.2X.

Final Thoughts & Recommendation

At present we are forecasting a 10.6% total annualized return through 2028 from a dividend yield of 1.5%, 8% EPS growth, and 1.1% P/E multiple expansion. ICE acquired Black Knight for $13B, but at the cost of much higher debt and leverage in the face of a slowing housing market and higher rates. At the current stock price, we rate this equity a buy.

Total Return Breakdown by Year



Click here to rate and review this research report. Your feedback is important to us.

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.

Intercontinental Exchange Inc. (ICE)

Updated November 16th, 2023 by Prakash Kolli

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	1730	4352	4682	5971	5843	6276	6547	8244	9168	9636
Gross Profit	1296	2500	2727	3559	3692	3985	4160	4848	5018	5202
Gross Margin	74.9%	57.4%	58.2%	59.6%	63.2%	63.5%	63.5%	58.8%	54.7%	54.0%
SG&A Exp.	207	590	515	697	742	782	823	959	458	440
D&A Exp.	156	333	374	610	535	586	662	751	1009	1031
Operating Profit	933	1577	1838	2252	2415	2617	2675	3138	3551	3731
Operating Margin	53.9%	36.2%	39.3%	37.7%	41.3%	41.7%	40.9%	38.1%	38.7%	38.7%
Net Profit	254	981	1274	1430	2526	1988	1933	2089	4058	1446
Net Margin	14.7%	22.5%	27.2%	23.9%	43.2%	31.7%	29.5%	25.3%	44.3%	15.0%
Free Cash Flow	556	1264	1034	1784	1728	2253	2354	2471	2671	3072
Income Tax	184	402	358	586	-28	500	521	658	1629	310

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	64422	68254	77987	82003	78264	92791	94493	126200	193500	194338
Cash & Equivalents	961	652	627	407	535	724	841	583	607	1799
Accounts Receivable	546	508	700	777	903	953	988	1230	1280	1169
Goodwill & Int. Ass.	18512	16315	22837	22711	22485	23547	23600	35699	34860	34201
Total Liabilities	52041	55862	63147	66249	61279	75560	77207	106666	170750	171577
Accounts Payable	477	546	514	519	590	626	643	846	703	866
Long-Term Debt	5058	4277	7308	6364	6100	7441	7819	16537	13290	18122
Shareholder's Equity	12349	12360	14808	15717	16957	17201	17255	19498	22710	22706
LTD/E Ratio	0.41	0.35	0.49	0.40	0.36	0.43	0.45	0.85	0.61	0.80

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	0.5%	1.5%	1.7%	1.8%	3.2%	2.3%	2.1%	1.9%	2.5%	0.7%
Return on Equity	3.2%	7.9%	9.4%	9.4%	15.5%	11.6%	11.2%	11.4%	19.2%	6.4%
ROIC	2.3%	5.8%	6.6%	6.5%	11.2%	8.3%	7.8%	6.8%	11.1%	3.7%
Shares Out.	575	565	595	595	596	569	604	598	565	561
Revenue/Share	4.38	7.60	8.38	9.97	9.84	10.84	11.59	14.85	16.23	17.18
FCF/Share	1.41	2.21	1.85	2.98	2.91	3.89	4.17	4.45	4.73	5.48

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