



Intercontinental Exchange Inc. (ICE)

Updated February 14th, 2024 by Prakash Kolli

Key Metrics

Current Price:	\$134	5 Year CAGR Estimate:	7.6%	Market Cap:	\$76.97B
Fair Value Price:	\$124	5 Year Growth Estimate:	8.0%	Ex-Dividend Date:	03/14/24
% Fair Value:	108%	5 Year Valuation Multiple Estimate:	-1.6%	Dividend Payment Date:	03/29/24
Dividend Yield:	1.3%	5 Year Price Target	\$182	Years Of Dividend Growth:	12
Dividend Risk Score:	B	Retirement Suitability Score:	C	Rating:	Hold

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 and Black Knight in 2023, expanding into mortgage technology services. The firm now has three reporting segments: Exchanges (55%), Fixed Income and Data Services (28%), and Mortgage Technology (16%). Total revenue in 2023 was \$8.0B.

ICE reported Q4 2023 and full-year results on February 8th, 2024. For the quarter, net revenue grew 24% to \$2,201M from \$1,768M and adjusted diluted earnings per share rose 6% to \$1.33 from \$1.25 on a year-over-year basis. On a GAAP basis, diluted earnings per share decreased to \$0.65 from \$0.76 in comparable periods. ICE benefitted from higher organic growth in Exchanges and Fixed Income and Data Services and the Black Knight acquisition.

The Exchanges segment revenue increased 16% to \$1,136M in the quarter from \$982M in the prior year driven by increases in Ags (+13%), Data and Connectivity (+3%), Cash and Equity Options (+7%), Financials (+16%), and Energy (+48%), offset by OTC & Other (-13%) and Listings (-4%). Fixed Income and Data Services segment revenue increased 5% to \$563M from \$537M in comparable periods driven by increases Other Data and Network (+8%), CDS Clearing (+5%), Income Data and Analytics (+4%) and flat Fixed Income Execution. Mortgage Technology segment revenue was up +102% to \$502M versus \$249M in the prior year on the Black Knight acquisition. Origination volumes were (-6%) lower, Closings fell (-2%), but Data & Analytics (+192%), and Servicing Software grew.

ICE guided for growth in all three segments in 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.93	\$2.43	\$2.78	\$2.95	\$3.59	\$3.88	\$4.51	\$5.61	\$5.30	\$5.62	\$5.91	\$8.68
DPS	\$0.52	\$0.58	\$0.68	\$0.80	\$0.96	\$1.10	\$1.20	\$1.32	\$1.52	\$1.68	\$1.80	\$2.64
Shares¹	565	595	595	596	569	604	561	561	556	573	567	539

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, Ellie Mae in 2020, and Black Knight in 2023, 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 2029, 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 8% annual growth rate in the dividend, matching earnings growth. The company has a \$2.4B share repurchase authorization, which was then suspended because of the Black Knight deal.

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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	21.1	19.3	18.8	21.5	20.7	22.0	24.8	23.3	20.5	22.9	22.7	21.0
Avg. Yld.	1.3%	1.2%	1.3%	1.3%	1.3%	1.3%	1.2%	1.1%	1.4%	1.3%	1.3%	1.5%

ICE's stock price is up since our last report. The company's mortgage segment is facing significant headwinds and uncertainty about the Black Knight acquisition. We set our 2024 earnings estimates at consensus. Our fair value multiple is 21X, which is near the 10-year average. Our fair value estimate is \$124. Our 5-year price target is \$182.

Safety, Quality, Competitive Advantage, & Recession Resiliency

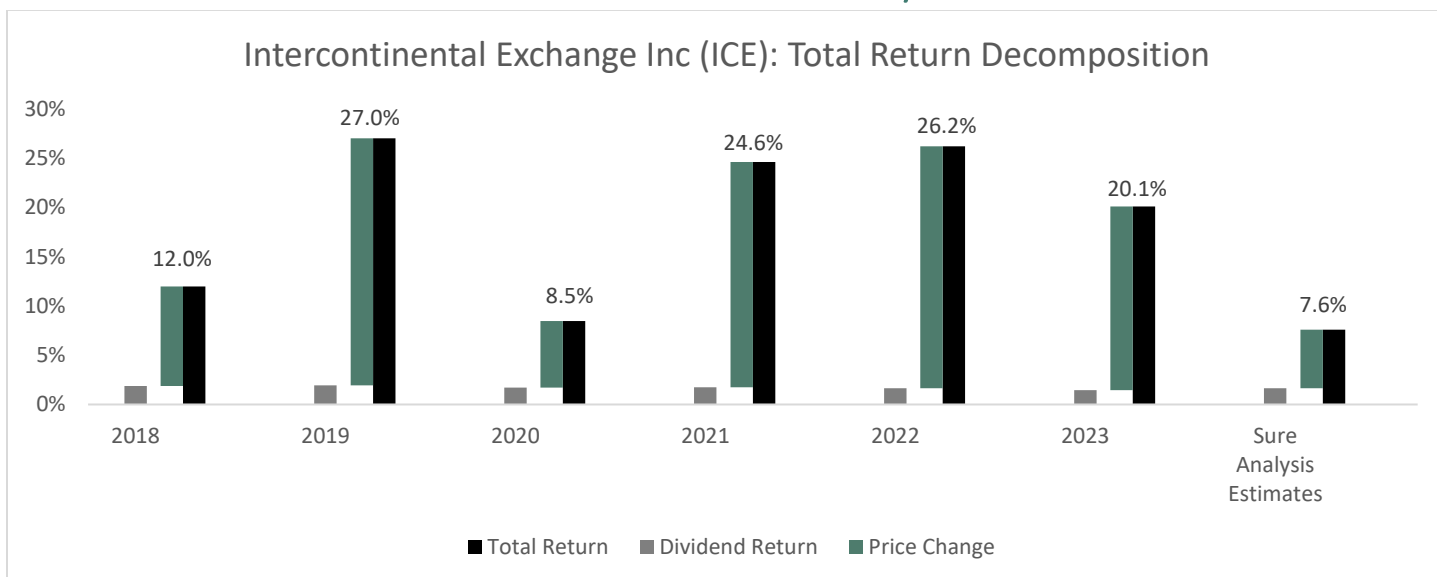
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	27%	24%	24%	27%	27%	28%	27%	24%	29%	30%	30%	30%

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 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 \$1,954M and long-term debt was \$20,659M at end of Q4 2023. This was offset by \$1,430M in cash and marketable securities. The leverage ratio is now over 4.4X and interest coverage is about 4.9X.

Final Thoughts & Recommendation

At present we are forecasting a 7.6% total annualized return through 2029 from a dividend yield of 1.3%, 8% EPS growth, and -1.6% P/E multiple contraction. 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. We have changed our rating to hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	4352	4682	5971	5843	6276	6547	8244	9168	9636	9903
Gross Profit	2500	2727	3559	3692	3985	4160	4848	5018	5202	5659
Gross Margin	57.4%	58.2%	59.6%	63.2%	63.5%	63.5%	58.8%	54.7%	54.0%	57.1%
SG&A Exp.	590	515	697	742	782	823	959	458	440	481
D&A Exp.	333	374	610	535	586	662	751	1009	1031	1215
Operating Profit	1577	1838	2252	2415	2617	2675	3138	3551	3731	3963
Operating Margin	36.2%	39.3%	37.7%	41.3%	41.7%	40.9%	38.1%	38.7%	38.7%	40.0%
Net Profit	981	1274	1430	2526	1988	1933	2089	4058	1446	2368
Net Margin	22.5%	27.2%	23.9%	43.2%	31.7%	29.5%	25.3%	44.3%	15.0%	23.9%
Free Cash Flow	1264	1034	1784	1728	2253	2354	2471	2671	3072	3053
Income Tax	402	358	586	-28	500	521	658	1629	310	456

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	68254	77987	82003	78264	92791	94493	126200	193500	194338	136084
Cash & Equivalents	652	627	407	535	724	841	583	607	1799	899
Accounts Receivable	508	700	777	903	953	988	1230	1280	1169	1366
Goodwill & Int. Ass.	16315	22837	22711	22485	23547	23600	35699	34860	34201	47870
Total Liabilities	55862	63147	66249	61279	75560	77207	106666	170750	171577	110298
Accounts Payable	546	514	519	590	626	643	846	703	866	1003
Long-Term Debt	4277	7308	6364	6100	7441	7819	16537	13290	18122	22613
Shareholder's Equity	12360	14808	15717	16957	17201	17255	19498	22710	22706	25717
LTD/E Ratio	0.35	0.49	0.40	0.36	0.43	0.45	0.85	0.61	0.80	0.88

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.5%	1.7%	1.8%	3.2%	2.3%	2.1%	1.9%	2.5%	0.7%	1.4%
Return on Equity	7.9%	9.4%	9.4%	15.5%	11.6%	11.2%	11.4%	19.2%	6.4%	9.8%
ROIC	5.8%	6.6%	6.5%	11.2%	8.3%	7.8%	6.8%	11.1%	3.7%	5.3%
Shares Out.	565	595	595	596	569	604	598	565	561	565
Revenue/Share	7.60	8.38	9.97	9.84	10.84	11.59	14.85	16.23	17.18	17.53
FCF/Share	2.21	1.85	2.98	2.91	3.89	4.17	4.45	4.73	5.48	5.40

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

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