

Intercontinental(ICE)

\$85.34 (As of 04/08/20)

Price Target (6-12 Months): **\$90.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/11/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:C

Value: D

Growth: C

Momentum: A

Summary

Intercontinental Exchange's revenue stream is driven by the compelling product and service portfolio along with broad range of risk management services and strength in global data services. Continued strength in its energy franchise, improving recurring market data revenues and ongoing initiatives are likely to keep growth on track. Strategic buyouts and cost synergies should drive long-term growth for the company. A strong balance sheet along with a solid cash and capital position helps in effective capital deployment. Its shares have underperformed its industry in a year's time. However, expenses are likely to remain elevated in the near term, given the several strategic initiatives. Also, adverse foreign currency fluctuations and stricter regulations raise concerns. Increasing interest expenses and high leverage raise financial risk.

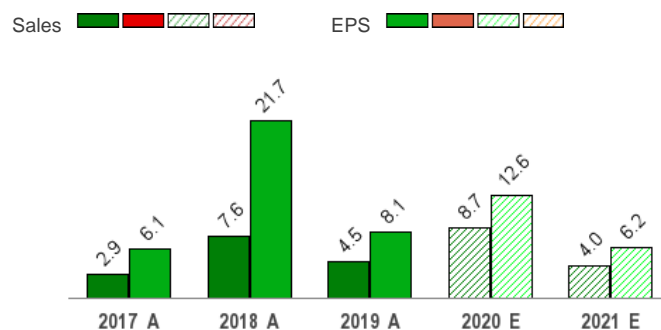
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$101.93 - \$63.51
20 Day Average Volume (sh)	5,335,645
Market Cap	\$46.9 B
YTD Price Change	-7.8%
Beta	0.50
Dividend / Div Yld	\$1.20 / 1.4%
Industry	Securities and Exchanges
Zacks Industry Rank	Top 4% (10 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	-0.1%
EPS F1 Est- 4 week change	3.7%
Expected Report Date	04/30/2020
Earnings ESP	7.4%
P/E TTM	22.1
P/E F1	19.5
PEG F1	2.4
P/S TTM	7.2

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,466 E	1,485 E	1,492 E	1,479 E	5,883 E
2020	1,478 E	1,396 E	1,399 E	1,381 E	5,655 E
2019	1,270 A	1,298 A	1,336 A	1,298 A	5,202 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.14 E	\$1.16 E	\$1.17 E	\$1.16 E	\$4.64 E
2020	\$1.14 E	\$1.05 E	\$1.05 E	\$1.09 E	\$4.37 E
2019	\$0.92 A	\$0.94 A	\$1.06 A	\$0.95 A	\$3.88 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 04/08/2020. The reports text is as of 04/09/2020.

Overview

Established in 2000, a Fortune 500 company, Intercontinental Exchange, Inc. is a leading global operator of regulated exchanges, clearing houses and listings venues, and a provider of data services for commodity, financial, fixed income and equity markets. The company completed its initial public offering in November 2005.

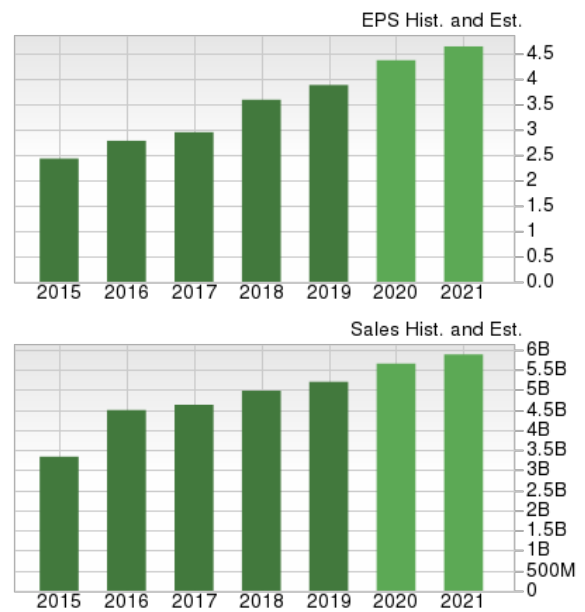
Intercontinental Exchange has evolved and grown over the past two decades primarily on buyouts and collaborations. The company's buyouts have expanded its data services for meeting customers' demands for real-time information. ICE Data Pricing & Reference Data offers evaluated pricing services and reference data solutions.

The company enhances its product suite and services continually, thereby, engaging in consistent efforts to upgrade its technology and software capabilities. The ICE Trading Platform and Technology offers comprehensive data services to support trading, investment, risk management and connectivity needs of customers around the world and across major asset classes.

The business is conducted through two reportable business segments:

Trading and Clearing Segment (49% of 2019 revenues) provides execution and risk management services to businesses, investors and traders across major asset classes, such as commodities, interest rates, credit, foreign exchange, equities and mortgage-related products. Revenues in the segment can be susceptible to seasonal fluctuations.

Data and Listings Segment (51% of 2019 revenues) provides a range of data and listing services for global financial and commodity markets. Revenues in Data and Listings segment are largely subscription-based and recurring in nature stemming from Pricing and Analytics, Exchange Data and Feeds, Desktops and Connectivity and Listings.



Reasons To Buy:

- ▲ Shares of Intercontinental Exchange have gained 11% in the past year, underperforming the industry's growth of 13.6%. Nevertheless, strong fundamentals should help the stock bounce back going forward.
- ▲ ICE has a decent history of acquisitions that have not only fueled its growth but have also led to achieving expense synergies. Such initiatives enhanced the company's product suite and services, which, in turn, aided bottom-line growth. The acquisitions are also in line with its aim of generating long-term value for shareholders.
- ▲ ICE develops and offers an array of products along with a broad range of risk management services including trade execution, market data, pre and post-trade processing and clearing services on an integrated platform. Its compelling product and service suite along with strategic acquisitions helped ICE boost its revenue stream. We believe that the company will retain its revenue momentum in the coming quarters, given its strength in global data services. Management estimates data revenues of \$2.29-\$2.33 billion for 2020, which includes first-quarter data revenues of \$560-\$565 million.
- ▲ With over 5,000 indices representing more than \$1 trillion in benchmark assets under management, the company boasts being the second-largest fixed income provider globally. Notably, volume growth continues to drive trading and clearing segment revenues. The company remains well-positioned for growth on the back of its solid energy franchise, increasing recurring market data revenues and strategic initiatives. Also, the company intends to launch ETF Hub to serve the \$1 trillion fixed income ETF industry.
- ▲ Further, ICE possesses a strong balance sheet with a solid cash and capital position. Riding high on operational strength, Intercontinental Exchange's operating cash flow improved 5% year over year in 2019. In the year, the company generated free cash flow of \$2.3 billion and returned more than 90% of that cash to shareholders through dividends and share repurchases. The company also engages in regular share repurchases. A healthy and minimal risk-based balance sheet is likely to continue providing stability and buoyancy to the company over the medium to long term.

Compelling portfolio, broad range of risk management services, timely achievement of cost synergies and solid capital position strengthens ICE's growth.

Reasons To Sell:

- ▼ The company's leverage position, as measured by debt-to-equity ratio of nearly 32%, is higher than the industry average of 24.9%. Also, its long-term debt has risen over the past many years, resulting in increased interest expense, which weighed on margins.
- ▼ Total operating expenses increased 24.3% in the last five years. In 2019, operating expenses increased 5.6%, primarily owing to higher compensation and benefits; technology and communication; selling, general and administrative; depreciation; and amortization. For first-quarter 2020, adjusted operating expenses are expected to be \$570-\$580 million. We believe that expenses are likely to remain elevated in the near term, given the several strategic initiatives including product launches, technology upgrade as well as higher debt and integration expenses, capital and infrastructural costs, rebates and compensation and benefits expenses. Hence, the company expects adjusted operating expenses of \$2.275-\$2.325 billion for 2020.
- ▼ Moreover, ICE continues to face a challenging global operating environment as arch-rivals are rapidly evolving through new, innovative product and service launches in order to gain market share and stay ahead in the competition. The vast outlay of growth plans by dominant players through acquisitions and setting up of clearing houses, along with product and service initiations in the derivatives market have already pointed out the swiftly changing dynamics of the exchange industry. Such aggressive industry efforts are not only keeping management on its toes but are also directly threatening its operations and competitive position. Hence, we believe that management should make productive endeavors as well as manage cash and liquidity position proactively, in order to retain and improve its industry position.

High leverage inducing rising interest expense, increasing operating expenses due to several strategic initiatives undertaken, challenging regulations and volatile industry trends raise concerns.

Last Earnings Report

Intercontinental Exchange Earnings Meet Estimates in Q4

Intercontinental Exchange reported fourth-quarter 2019 adjusted earnings per share of 95 cents, in line with the Zacks Consensus Estimate. Meanwhile, the bottom line inched up 1.1% on a year-over-year basis. However, the company witnessed lower revenues and higher expenses in the quarter under review.

Performance in Detail

Intercontinental Exchange's revenues of \$1.3 billion dipped 0.8% year over year, mainly due to lower transaction and clearing. The top line also missed the Zacks Consensus Estimate by 0.2%. Net revenues of Trading and Clearing segment were \$626 million, down 5% year over year while Data and Listings revenues were \$672 million, up 3% year over year. Total operating expenses rose 7% year over year to \$676 million, primarily due to higher compensation and benefits, technology and communication, and depreciation and amortization. Adjusted operating expenses were \$570 million in the third quarter, up 3.1% from the year-ago figure.

Adjusted operating income slipped 3.6% year over year to \$728 million. Adjusted operating margin contracted 200 basis points (bps) from the year-ago quarter to 56%.

Trading and Clearing's adjusted operating income of \$380 million was down 10.6% year over year. Adjusted operating margin contracted 400 bps to 61%.

Data and Listings' adjusted operating income rose 5.5% year over year to \$348 million and adjusted operating margin of 52% expanded 100 bps.

Total **Futures & Options** came in at 5.2 million contracts, down 17% year over year. Revenue per contract of \$1.14 increased 14% year over year.

Financial Update

As of Dec 31, 2019, Intercontinental Exchange had cash and cash equivalents of \$841 million, up 16.2% from the level as of Dec 31, 2018. Long-term debt of \$5.2 billion was down 19% from the level at 2018 end. Total equity was \$17.2 billion as of Dec 31, 2019, up 0.3% from the level as of Dec 31, 2018. Operating cash flow was \$2.7 billion in 2019, up 5% year over year. Free cash flow was \$2.3 billion, up 1.5% year over year.

Share Repurchase and Dividend Update

In 2019, the company bought back shares worth \$1.5 billion and paid out dividends amounting to \$621 million. The company also took up a new share repurchase plan of \$2.4 billion, effective Jan 1, 2020.

Q1 Guidance

Following fourth-quarter results, the company issued its first-quarter and 2020 outlook. For the first quarter of 2020, the company expects its data revenues to be \$560-\$565 million while operating expenses are projected in the range of \$570-\$580 million.

2020 Guidance

Data revenues are estimated between \$2.29 billion and \$2.33 billion. Operating expenses are predicted in the \$2.275-\$2.325 billion band.

Full-Year Update

For 2019, net revenues were \$5.2 billion, up 4% year over year. Adjusted operating expenses for the year were \$2.2 billion, up 5.7% year over year.

The company's adjusted EPS for the period was \$3.88, up 8% year over year.

Adjusted operating income for the full year was \$3 billion, up 3.6% year over year.

Quarter Ending **12/2019**

Report Date	Feb 06, 2020
Sales Surprise	-0.14%
EPS Surprise	0.00%
Quarterly EPS	0.95
Annual EPS (TTM)	3.87

Recent News

Intercontinental Exchanges March Volume Improves Y/Y – Apr 3, 2020

Intercontinental Exchange, Inc.'s average daily volume (ADV) in March increased 56% to 9.4 million largely backed by improved Financial ADV, Commodities ADV and Energy ADV. The company reported 38.5% year-over-year increase in Financials volume that rose to 4.4 million contracts per day. There were 22 trading days in March.

Intercontinental Exchange to Close Trading Floors of NYSE- Mar 18, 2020

Intercontinental Exchange Inc. has declared to close the trading floors of The New York Stock Exchange (NYSE) on a temporary basis. This decision has been taken as a precautionary measure against the novel coronavirus pandemic, after a trader and a NYSE employee tested positive for COVID-19.

Intercontinental Exchange Reports Monthly Volumes for February 2020- Mar 4, 2020

Intercontinental Exchange reported average daily volume (ADV) for February 2020. ADV increased 39% year over year while open interest increased 14% year over year. Agriculture and Metals ADV improved 26% year over year. Energy volume too increased 54% to 3.9 million contracts per day.

Intercontinental Exchange Expands Ties With S&P Global Platts – Feb 18, 2020

Intercontinental Exchange revealed plans to come up with a new version of its market data platform — ICE Connect. The new service will have access to oil market analytics, backed by S&P Global Platts, a subsidiary of S&P Global, along with other third parties. The platform is expected to be introduced in the second quarter of 2020.

Valuation

Intercontinental Exchange shares are down 7.8% and up 11.1% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 6.8% and 26.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 13.6% and down 19.8%, respectively.

The S&P 500 index is down 14.6% in the year-to-date period and 5% in the past year.

The stock is currently trading at 19.7x forward 12-month earnings, which compares to 22.4x for the Zacks sub-industry, 12.5x for the Zacks sector and 17x for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.5x and as low as 15.9x, with a 5-year median of 19.5x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$90 price target reflects 20.8x forward 12-month earnings.

The table below shows summary valuation data for ICE

Valuation Multiples - ICE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	19.72	22.43	12.48	16.99
	5-Year High	24.47	27.47	16.19	19.34
	5-Year Low	15.93	18.49	11.23	15.19
	5-Year Median	19.51	21.77	13.95	17.44
P/S F12M	Current	8.37	10.74	4.93	2.94
	5-Year High	10.06	12.94	6.65	3.44
	5-Year Low	5.94	7.27	4.93	2.54
	5-Year Median	8.04	10.05	6.03	3
P/B TTM	Current	2.71	3	2.06	3.54
	5-Year High	3.23	3.54	2.89	4.55
	5-Year Low	1.84	1.81	1.69	2.84
	5-Year Median	2.43	2.58	2.51	3.63

As of 04/08/2020

Industry Analysis Zacks Industry Rank: Top 4% (10 out of 253)



Top Peers

MarketAxess Holdings Inc. (MKTX)	Outperform
Nasdaq, Inc. (NDAQ)	Outperform
Cboe Global Markets, Inc. (CBOE)	Neutral
CME Group Inc. (CME)	Neutral
Moodys Corporation (MCO)	Neutral
MSCI Inc (MSCI)	Neutral
OTC Markets Group Inc. (OTCM)	Neutral
Investnet, Inc (ENV)	Underperform

Industry Comparison Industry: Securities And Exchanges				Industry Peers		
	ICE Neutral	X Industry	S&P 500	CBOE Neutral	CME Neutral	NDAQ Outperform
VGM Score	C	-	-	C	D	D
Market Cap	46.86 B	17.18 B	19.05 B	10.57 B	64.86 B	17.18 B
# of Analysts	7	6.5	13	7	7	6
Dividend Yield	1.41%	1.50%	2.23%	1.50%	1.88%	1.81%
Value Score	D	-	-	D	F	D
Cash/Price	0.04	0.04	0.06	0.03	0.03	0.04
EV/EBITDA	14.76	15.15	11.47	15.39	20.05	14.90
PEG Ratio	2.37	2.26	2.00	3.27	2.89	1.88
Price/Book (P/B)	2.75	3.16	2.56	3.16	2.47	3.04
Price/Cash Flow (P/CF)	16.64	16.73	10.14	14.77	22.25	16.73
P/E (F1)	19.53	19.81	16.97	18.40	23.27	18.77
Price/Sales (P/S)	7.16	7.16	2.01	4.23	13.32	4.03
Earnings Yield	5.12%	5.05%	5.81%	5.43%	4.30%	5.33%
Debt/Equity	0.32	0.27	0.70	0.27	0.14	0.59
Cash Flow (\$/share)	5.13	6.22	7.01	6.48	8.13	6.22
Growth Score	C	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	13.74%	13.74%	10.92%	22.48%	16.44%	11.74%
Proj. EPS Growth (F1/F0)	12.59%	12.03%	-0.64%	9.97%	14.35%	10.93%
Curr. Cash Flow Growth	7.25%	5.26%	5.93%	-6.75%	12.13%	0.39%
Hist. Cash Flow Growth (3-5 yrs)	15.62%	18.37%	8.55%	25.08%	16.24%	10.02%
Current Ratio	0.99	1.03	1.24	2.16	1.03	1.01
Debt/Capital	24.50%	21.41%	42.36%	21.41%	12.52%	37.11%
Net Margin	29.52%	29.52%	11.64%	14.99%	43.48%	18.15%
Return on Equity	12.77%	15.96%	16.74%	15.96%	9.22%	15.16%
Sales/Assets	0.07	0.31	0.54	0.48	0.07	0.31
Proj. Sales Growth (F1/F0)	8.70%	8.70%	0.61%	9.21%	10.61%	4.87%
Momentum Score	A	-	-	A	B	B
Daily Price Chg	3.69%	3.16%	4.33%	2.35%	2.35%	3.16%
1 Week Price Chg	-0.32%	2.63%	-4.40%	-1.40%	1.40%	2.63%
4 Week Price Chg	-1.00%	-3.91%	-1.70%	-10.01%	-7.04%	4.84%
12 Week Price Chg	-10.89%	-10.99%	-20.64%	-18.11%	-11.73%	-3.46%
52 Week Price Chg	11.05%	10.12%	-12.97%	-0.46%	6.42%	19.01%
20 Day Average Volume	5,335,645	1,388,458	4,016,075	1,388,458	3,340,921	1,536,201
(F1) EPS Est 1 week change	3.49%	1.42%	-0.26%	4.15%	1.42%	0.30%
(F1) EPS Est 4 week change	3.66%	3.66%	-5.64%	4.33%	4.25%	0.73%
(F1) EPS Est 12 week change	3.63%	4.22%	-7.49%	4.81%	5.96%	2.12%
(Q1) EPS Est Mthly Chg	1.94%	0.80%	-9.90%	1.22%	0.16%	0.37%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	A
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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