

Intercontinental(ICE)

\$93.84 (As of 07/08/20)

Price Target (6-12 Months): **\$99.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/13/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: F

Summary

Shares of Intercontinental Exchange have outperformed its industry in the past year. Its 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 are in sync with its aim of generating long-term value for shareholders. A strong balance sheet and a solid cash and capital position helps in effective capital deployment. However, expenses are likely to remain elevated in the near term, given the several strategic initiatives. Also, foreign currency fluctuations and stricter regulations raise concerns. Increasing interest expenses and high leverage raise financial risk.

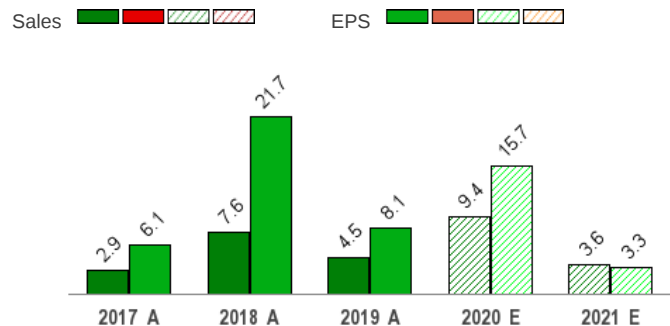
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$101.93 - \$63.51
20 Day Average Volume (sh)	2,615,419
Market Cap	\$51.4 B
YTD Price Change	1.4%
Beta	0.54
Dividend / Div Yld	\$1.20 / 1.3%
Industry	Securities and Exchanges
Zacks Industry Rank	Bottom 28% (180 out of 251)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	4.1%
Last Sales Surprise	0.3%
EPS F1 Est- 4 week change	-0.1%
Expected Report Date	07/30/2020
Earnings ESP	-1.2%
P/E TTM	22.2
P/E F1	20.9
PEG F1	2.5
P/S TTM	7.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,446 E	1,470 E	1,481 E	1,469 E	5,893 E
2020	1,559 A	1,392 E	1,391 E	1,373 E	5,690 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	\$1.15 E	\$1.13 E	\$1.16 E	\$1.15 E	\$4.64 E
2020	\$1.28 A	\$1.07 E	\$1.05 E	\$1.09 E	\$4.49 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 07/08/2020. The reports text is as of 07/09/2020.

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.

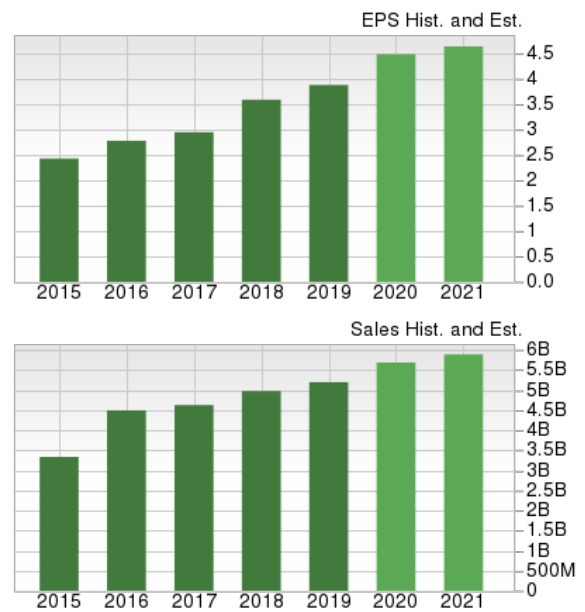
Intercontinental Exchange has evolved and grown over the past two decades primarily on buyouts and collaborations. The company's buyouts have expanded its data services for meeting customers' demands for real-time information. ICE Data Pricing & Reference Data offers evaluated pricing services and reference 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 3.9% in a year, outperforming the industry's rise of 0.3%. Moreover, strong fundamentals are likely to sustain momentum in the long run.
- ▲ Intercontinental Exchange 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.
- ▲ Intercontinental Exchange 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 second-quarter data revenues of \$565-\$570 million. The company expects improvement in data revenues to continue through the rest of this year on the back of mission-critical Pricing & Analytics and connectivity offerings.
- ▲ 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, the company possesses a strong balance sheet with a solid cash and capital position. Riding high on operational strength, the company generated free cash flow of \$434 million and returned a record \$865 million 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:

- ▼ Intercontinental Exchange's debt has increased 17.3% over the last five years. At the end of the first quarter of 2020, though debt balance improved, debt to capital was 24.6, up from 24.2 at the end of 2019 and compared unfavorably with the industry's measure of 19.7. However, times interest earned, a measure to identify the company ability to service debt, decreased in the last five years. Times interest earned was 10.4 in the first quarter, down sequentially from 10.5 in fourth quarter of 2019 and lower than the industry average of 12.5.

Also, its increased debt balance resulted in increased interest expense, which weighed on margins. While interest expenses increased nearly three-fold, net margin contracted 100 basis points over the last five years. Net margin however expanded in the first quarter of 2020.

- ▼ Total operating expenses increased 62.3% in the last five years. In the first quarter of 2020, operating expenses increased 11.9%, primarily owing to higher compensation and benefits; technology and communication; selling, general and administrative; depreciation; and amortization. For second-quarter 2020, adjusted operating expenses are expected to be in the range of \$575-\$585 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 \$2.32-\$2.37 billion for 2020.
- ▼ Moreover, Intercontinental Exchange 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 Q1 Earnings Beat Estimates

Intercontinental Exchange reported first-quarter 2020 adjusted earnings per share of \$1.28 per share, which exceeded the Zacks Consensus Estimate of \$1.23. The bottom line improved 39% on a year-over-year basis.

The quarter witnessed record revenues, record operating income and double-digit earnings per share growth.

Quarter Ending **03/2020**

Report Date	Apr 30, 2020
Sales Surprise	0.26%
EPS Surprise	4.07%
Quarterly EPS	1.28
Annual EPS (TTM)	4.23

Performance in Detail

Intercontinental Exchange's revenues of \$1.6 billion improved 62% year over year, driven by increased revenues at Trading and Clearing as well as Data and Listings. The top line marginally beat the Zacks Consensus Estimate.

Net revenues of Trading and Clearing segment were \$66 million, up 52 % year over year while Data and Listings revenues were \$883 million, up 69% year over year.

Total operating expenses rose 11.9% year over year to \$677 million, primarily due to higher compensation and benefits, professional services, technology and communication, selling, general and administrative and depreciation and amortization. Adjusted operating expenses were \$597 million in the first quarter, up 13.1% from the year-ago figure.

Adjusted operating income improved 29.6% year over year to \$962 million. Adjusted operating margin expanded 400 basis points (bps) from the year-ago quarter to 62%.

Trading and Clearing's adjusted operating income of \$608 million was up 49% year over year. Adjusted operating margin expanded 200 bps to 69%.

Data and Listings' adjusted operating income rose about 6% year over year to \$354 million and adjusted operating margin of 52% expanded 100 bps.

Total Futures & Options ADV came in at 8 million contracts, down 17% year over year. Revenue per contract of \$1.11 increased 4% year over year.

Financial Update

As of Mar 30, 2020 Intercontinental Exchange had cash and cash equivalents of \$1582 million, down from \$1784 million as of Dec 31, 2019. Long-term debt of \$5.3 billion was up 0.03% from the level at 2019 end. Total equity was \$17 billion as of Mar 30, 2020, down 1.9% from the level as of Dec 31, 2019.

Operating cash flow was \$520 million in the quarter, down 20.5% year over year. Free cash flow was \$434 million, down 30.4% year over year.

Share Repurchase and Dividend Update

In the first quarter of 2020, Intercontinental Exchange bought back shares worth \$699 million and paid out \$166 million in dividends.

The board of directors approved second quarter dividend of 30 cents per share, up 9% from 27.5 cents per share dividend paid out in the second quarter of 2019. The cash dividend will be paid out on Jun 30, 2020 to shareholders of record as of Jun 16.

Guidance

Q2

For the second quarter of 2020, the company expects its data revenues to be \$565-\$570 million while adjusted operating expenses are expected to be in the range of \$575 million to \$585 million.

2020

GAAP operating expenses are expected to be in the range of \$2.607 billion to \$2.657 billion while adjusted operating expenses are expected to be in the range of \$2.32 billion to \$2.37 billion.

Capital expenditures are expected to be in the range of \$300 million to \$330 million.

Recent News

Intercontinental Exchange, BondLink Partner for Market Data – Jul 7, 2020

Intercontinental Exchange, Inc.'s ICE Data Services has partnered with BondLink to provide issuers a cloud-based market data dashboard on a real-time basis. The launch of the municipal bond market data package is expected in July 2020. The collaboration with BondLink will help ICE Data Services to expand their solutions offered to municipal issuers and boost its potential in the fixed income markets.

Intercontinental Exchange Reports Soft June Volumes – Jul 6, 2020

Intercontinental Exchange's average daily volume (ADV) in June decreased 19.1% to 5.3 million largely attributable to lower Commodities and Financial ADV. There were 22 trading days in June.

Agriculture and Metals ADV of 0.4 million contracts declined 16.9%. Energy volume too decreased 3.7% to 2.7 million contracts per day. Thus, Commodities ADV decreased 5.8% to 3.1 million in June.

Intercontinental Exchange Unveils Real-Time Index Publication – Jun 17, 2020

Intercontinental Exchange's ICE Data Services has introduced real-time publication of most of its fixed income indices, which are to be administered by ICE Data Indices, LLC ("IDI"). It has boosted its real-time offering to the fixed income asset class in a bid to meet increasing demand globally. The real-time publication of the indices enhances transparency of the activities across the fixed income markets for the market participants.

Valuation

Intercontinental Exchange shares are up 1.4% and 3.9% 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 1.5% and 20.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 0.3% and down 15.9%, respectively.

The S&P 500 index is down 2.1% in the year-to-date period and up 5.6% in the past year.

The stock is currently trading at 20.49x forward 12-month earnings, which compares to 23.94x for the Zacks sub-industry, 16.16x for the Zacks sector and 22.46x for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.47x and as low as 15.4x, with a 5-year median of 19.72x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$99 price target reflects 21.66x 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	20.49	23.94	16.16	22.46
	5-Year High	24.47	27.48	16.27	22.46
	5-Year Low	15.4	18.5	11.59	15.27
	5-Year Median	19.72	22.14	14.18	17.59
P/S F12M	Current	8.84	11.38	6.04	3.5
	5-Year High	10.06	12.95	6.7	3.5
	5-Year Low	5.94	7.27	4.96	2.52
	5-Year Median	8.16	10.28	6.07	3.04
P/B TTM	Current	3.03	3.18	2.32	4.31
	5-Year High	3.23	3.51	2.98	4.65
	5-Year Low	1.84	1.79	1.78	2.81
	5-Year Median	2.47	2.62	2.51	3.69

As of 07/08/2020

Industry Analysis Zacks Industry Rank: Bottom 28% (180 out of 251)



Top Peers

Company (Ticker)	Rec	Rank
MarketAxess Holdings Inc. (MKTX)	Outperform	2
Cboe Global Markets, Inc. (CBOE)	Neutral	3
CME Group Inc. (CME)	Neutral	3
Envestnet, Inc (ENV)	Neutral	3
Moodys Corporation (MCO)	Neutral	2
MSCI Inc (MSCI)	Neutral	2
Nasdaq, Inc. (NDAQ)	Neutral	3
OTC Markets Group Inc. (OTCM)	Neutral	5

Industry Comparison Industry: Securities And Exchanges				Industry Peers		
	ICE	X Industry	S&P 500	CBOE	CME	NDAQ
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	3
VGM Score	D	-	-	D	F	B
Market Cap	51.35 B	20.64 B	21.57 B	10.21 B	60.27 B	19.97 B
# of Analysts	7	6	14	7	6	7
Dividend Yield	1.28%	1.55%	1.94%	1.55%	2.02%	1.61%
Value Score	D	-	-	D	D	D
Cash/Price	0.03	0.03	0.07	0.02	0.02	0.07
EV/EBITDA	16.13	16.30	12.68	15.13	18.82	16.46
PEG Ratio	2.48	2.91	2.88	4.88	4.33	2.86
Price/Book (P/B)	3.03	3.70	3.03	3.08	2.26	3.70
Price/Cash Flow (P/CF)	18.30	19.55	11.62	14.35	20.66	19.55
P/E (F1)	20.44	22.75	21.12	17.67	22.75	21.62
Price/Sales (P/S)	7.25	7.25	2.27	3.62	11.57	4.37
Earnings Yield	4.78%	4.40%	4.44%	5.66%	4.40%	4.63%
Debt/Equity	0.33	0.22	0.76	0.30	0.13	0.61
Cash Flow (\$/share)	5.13	6.22	6.94	6.48	8.13	6.22
Growth Score	C	-	-	B	C	B
Hist. EPS Growth (3-5 yrs)	13.38%	15.03%	10.90%	22.89%	16.67%	11.36%
Proj. EPS Growth (F1/F0)	15.65%	13.06%	-9.99%	11.27%	8.63%	12.57%
Curr. Cash Flow Growth	7.25%	5.26%	5.51%	-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	1.02	1.30	1.77	1.01	0.97
Debt/Capital	24.89%	17.44%	44.46%	23.14%	11.74%	37.74%
Net Margin	29.65%	29.65%	10.62%	15.49%	45.79%	15.94%
Return on Equity	13.85%	17.64%	15.75%	17.64%	10.15%	16.08%
Sales/Assets	0.07	0.33	0.55	0.55	0.06	0.33
Proj. Sales Growth (F1/F0)	9.39%	6.86%	-2.57%	10.67%	6.71%	6.86%
Momentum Score	F	-	-	F	F	A
Daily Price Chg	1.37%	1.37%	0.23%	-0.75%	1.49%	1.02%
1 Week Price Chg	2.06%	2.46%	3.66%	3.91%	1.74%	3.66%
4 Week Price Chg	-3.57%	1.41%	-4.65%	-8.25%	-10.93%	1.41%
12 Week Price Chg	8.80%	10.76%	11.62%	-5.18%	-9.14%	14.81%
52 Week Price Chg	3.93%	3.93%	-7.46%	-16.73%	-17.27%	18.13%
20 Day Average Volume	2,615,419	663,288	2,368,260	767,483	2,156,252	663,288
(F1) EPS Est 1 week change	-0.41%	0.00%	0.00%	-0.49%	-1.60%	0.10%
(F1) EPS Est 4 week change	-0.13%	0.00%	0.00%	-0.54%	-4.05%	1.10%
(F1) EPS Est 12 week change	1.98%	0.82%	-7.67%	0.82%	-4.57%	1.34%
(Q1) EPS Est Mthly Chg	-0.57%	0.00%	0.00%	-2.31%	-5.03%	0.87%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	F
VGM Score	D

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.

Disclosures

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