

Intercontinental(ICE)

\$99.16 (As of 08/10/20)

Price Target (6-12 Months): **\$105.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/13/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:D

Value: D

Growth: C

Momentum: A

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.

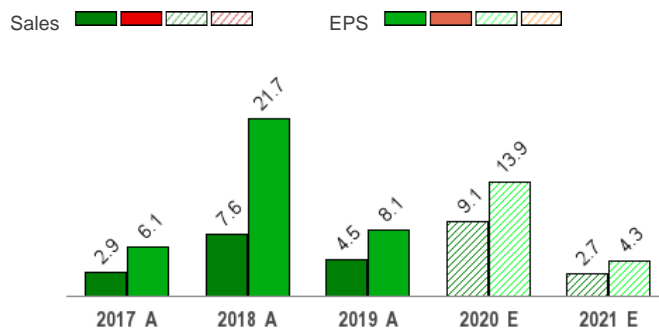
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$101.93 - \$63.51
20 Day Average Volume (sh)	2,956,874
Market Cap	\$53.9 B
YTD Price Change	7.1%
Beta	0.54
Dividend / Div Yld	\$1.20 / 1.2%
Industry	Securities and Exchanges
Zacks Industry Rank	Bottom 8% (233 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.9%
Last Sales Surprise	0.5%
EPS F1 Est- 4 week change	-0.7%
Expected Report Date	10/29/2020
Earnings ESP	-0.5%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,447 E	1,440 E	1,458 E	1,448 E	5,833 E
2020	1,559 A	1,395 A	1,368 E	1,359 E	5,677 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	\$1.18 E	\$1.13 E	\$1.15 E	\$1.14 E	\$4.61 E
2020	\$1.28 A	\$1.07 A	\$1.03 E	\$1.05 E	\$4.42 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.

P/E TTM	22.7
P/E F1	22.4
PEG F1	2.7
P/S TTM	7.3

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/10/2020. The reports text is as of 08/11/2020.

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.

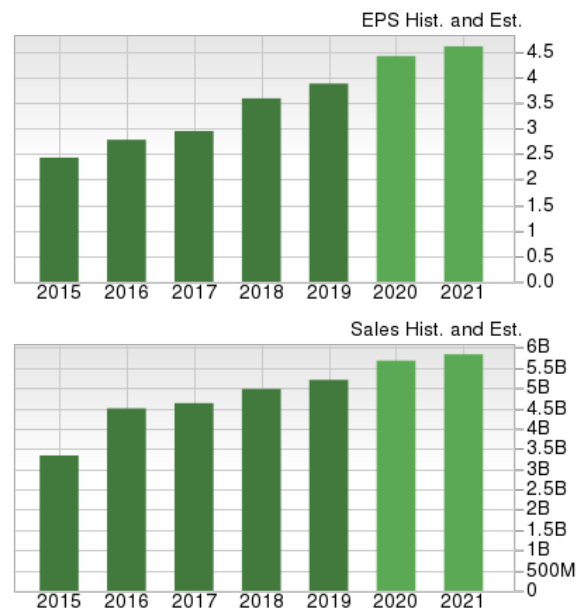
Intercontinental Exchange has evolved and grown over the past two decades primarily on buyouts and collaborations. The company's buyouts have expanded its data services for meeting customers' demands for real-time information. ICE Data Pricing & Reference Data offers evaluated pricing services and reference 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 6.6% year to date, outperforming the industry's decline of 0.2%. 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. Recently, the company agreed to purchase mortgage-software firm Ellie Mae for \$11 billion in a stock-cash transaction. The acquisition of Ellie Mae is expected to increase adjusted earnings per share in the first full year of ownership and realize run-rate cost synergies of \$50 million to \$65 million by the end of the third year. Intercontinental Exchange expects ICE Mortgage Services to bring in \$1.1 billion in revenues in 2020, including Ellie Mae's expected annual revenues of approximately \$900 million. It also estimates ICE Mortgage Services pro-forma 2020 adjusted EBITDA of about \$600 million including estimated 2020 Ellie Mae adjusted EBITDA of about \$470 million.
- ▲ 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. In fact, the second quarter marked the 42nd consecutive quarter of year-over-year data services revenue increase. Management estimates third-quarter data revenues in the range of \$575-\$580 million and a further increase of \$7 million to \$10 million in the fourth quarter of 2020. 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 \$1.1 billion and returned a record \$1.4 billion to shareholders through dividends and share repurchases in the first half of 2020. 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 second quarter of 2020, debt balance deteriorated 7.5% while debt to capital was 31.9, deteriorating from 24.2 at the end of 2019 and comparing unfavorably with the industry's measure of 23.8. However, times interest earned, a measure to identify the company ability to service debt, decreased in the last five years. Times interest earned was 10.2 in the second quarter, down from 10.4 in the first quarter of 2020 and lower than the industry average of 12.4.

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 (bps) over the last five years. Net margin contracted 140 bps in the second quarter of 2020.

- ▼ Total operating expenses increased 62.3% in the last five years. In the first half of 2020, operating expenses increased 8.6%, primarily owing to higher compensation and benefits; acquisition-related transaction and integration cost, and technology and communication expenses. For third-quarter 2020, adjusted operating expenses are expected to be in the range of \$580-\$590 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 Q2 Earnings & Revenues Top

Intercontinental Exchange reported second-quarter 2019 adjusted earnings per share of \$1.07, which beat the Zacks Consensus Estimate by 2.9%. Also, the bottom line improved 13.8% on a year-over-year basis.

The company witnessed continued revenue growth driven by strong Trading and Clearing as well as Data and Listings.

Quarter Ending **06/2020**

Report Date	Jul 30, 2020
Sales Surprise	0.54%
EPS Surprise	2.88%
Quarterly EPS	1.07
Annual EPS (TTM)	4.36

Performance in Detail

Intercontinental Exchange's revenues of \$1.4 billion increased 7.5% year over year on higher revenues from transaction and clearing, data services, listings and other revenues. Moreover, the top line outpaced the Zacks Consensus Estimate by 0.5%.

Net revenues of Trading and Clearing segment were \$710 million, up 12% year over year, while Data and Listings revenues were \$685 million, up 3% year over year

Total operating expenses rose 5.3% year over year to \$651 million, primarily due to higher compensation and professional services, technology and communication expenses, rent and occupancy and acquisition-related transaction and integration costs. Adjusted operating expenses were \$575 million in the second quarter, up 6.5% from the year-ago quarter's figure.

Adjusted operating income improved 8.2% year over year to \$820 million. Adjusted operating margin expanded 100 basis points (bps) from the year-ago quarter to 59%.

Trading and Clearing's adjusted operating income of \$545 million was up 11.3% year over year. Adjusted operating margin contracted 100 bps. Data and Listings' adjusted operating income rose 4.6% year over year to \$366 million and adjusted operating margin of 53% was flat year over year.

Total Futures & Options totaled 5.6 million contracts, flat year over year. Revenue per contract of \$1.17 increased 2% year over year.

Financial Update

As of Jun 30, 2020, Intercontinental Exchange had cash and cash equivalents of \$1.873 billion, up nearly 5% from the level as of Dec 31, 2019. Long-term debt of \$7.7 billion was up 46.7% from 2019-end level.

Total equity was \$16.9 billion as of Jun 30, 2010, down 1.8% from 2019 end.

Operating cash flow was \$1.4 billion in the first half of 2020, down 0.3% year over year. Free cash flow was \$1.1 billion, up 10.9% year over year.

In the first half of 2020, the company returned \$1.4 billion to its shareholders.

Third-Quarter 2020 Guidance

Data revenues are estimated between \$575 million and \$580 million.

Operating expenses are projected in the range of \$651-\$661 million. Adjusted operating expenses are expected to be in the range of \$580 million to \$590 million.

Non-operating expense is expected to be in the range of \$20 million to \$25 million.

Weighted average shares outstanding are anticipated between 542 million and 548 million shares.

2020 View

Operating expenses are predicted in the band of \$2.617-\$2.667 billion. Adjusted operating expenses are expected to be in the range of \$2.32 million to \$2.37 million.

Capital expenditures are expected between \$350 million and \$370 million.

Recent News

Intercontinental Exchange to Acquire Ellie Mae - Aug 6, 2020

Intercontinental Exchange, Inc. (ICE - Research Report) has agreed to purchase mortgage-software firm Ellie Mae from private equity firm, Thoma Bravo. The deal is expected to close in the third quarter or early fourth quarter of 2020 after it receives Hart-Scott-Rodino (HSR) review and clearance.

Founded in 1997, CA-based Ellie Mae is a leading enterprise digital lending platform and B2B network, which aids non-bank lenders, credit unions, investors and banks to automate the full mortgage origination workflow.

The deal is valued at an enterprise value of \$11 billion. The price includes \$1.75 billion of newly issued stock of ICE, as the company is known, and \$9.25 billion cash.

The buyout of Ellie Mae will transform the mortgage marketplace of Intercontinental Exchange. It will also enhance the acquirer's growth strategy in mortgage technology, with complementary products.

The acquisition of Ellie Mae is expected to increase adjusted earnings per share in the first full year of ownership, realize run-rate cost synergies of \$50 million to \$65 million by the end of third year

Intercontinental Exchange expects ICE Mortgage Services to bring in \$1.1 billion in revenues in 2020, including Ellie Mae's expected annual revenues of approximately \$900 million. It also estimates ICE Mortgage Services pro-forma 2020 adjusted EBITDA of about \$600 million including estimated 2020 Ellie Mae adjusted EBITDA of about \$470 million.

As far as Ellie Mae is concerned, the acquisition will enable it to work closely with Simplifile and MERS, which will boost its digital mortgage business.

Valuation

Intercontinental Exchange shares are up 6.6% and 8.9% 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 0.2% and 15.4% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 0.6% and 6.1%, respectively.

The S&P 500 index is up 4.2% in the year-to-date period and 16.7% in the past year.

The stock is currently trading at 21.87x forward 12-month earnings, which compares to 24.43x for the Zacks sub-industry, 16.77x for the Zacks sector and 22.75x 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 19.79x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$105 price target reflects 23.18x 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	21.87	24.43	16.77	22.75
	5-Year High	24.47	27.47	16.77	22.75
	5-Year Low	15.4	18.49	11.59	15.25
	5-Year Median	19.79	22.17	14.26	17.58
P/S F12M	Current	9.33	11.55	6.22	3.66
	5-Year High	10.06	12.94	6.66	3.66
	5-Year Low	5.94	7.27	4.96	2.53
	5-Year Median	8.2	10.43	6.06	3.05
P/B TTM	Current	3.17	3.16	2.47	4.67
	5-Year High	3.23	3.54	2.91	4.67
	5-Year Low	1.84	1.81	1.72	2.83
	5-Year Median	2.48	2.71	2.53	3.74

As of 08/10/2020

Industry Analysis Zacks Industry Rank: Bottom 8% (233 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Envestnet, Inc. (ENV)	Outperform	1
MarketAxess Holdings Inc. (MKTX)	Outperform	2
Cboe Global Markets, Inc. (CBOE)	Neutral	4
Moodys Corporation (MCO)	Neutral	3
MSCI Inc (MSCI)	Neutral	3
Nasdaq, Inc. (NDAQ)	Neutral	3
OTC Markets Group Inc. (OTCM)	Neutral	4
CME Group Inc. (CME)	Underperform	5

Industry Comparison Industry: Securities And Exchanges				Industry Peers		
	ICE	X Industry	S&P 500	CBOE	CME	NDAQ
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	4	-	-	4	5	3
VGM Score	D	-	-	A	F	B
Market Cap	53.87 B	21.60 B	23.56 B	9.30 B	59.29 B	21.60 B
# of Analysts	7	7	14	7	7	7
Dividend Yield	1.21%	1.49%	1.71%	1.68%	2.06%	1.49%
Value Score	D	-	-	D	F	D
Cash/Price	0.03	0.04	0.07	0.04	0.02	0.04
EV/EBITDA	17.50	17.91	13.39	13.66	18.33	18.41
PEG Ratio	2.73	2.84	2.92	5.84	5.44	2.62
Price/Book (P/B)	3.17	3.75	3.18	2.83	2.21	3.75
Price/Cash Flow (P/CF)	19.33	20.33	12.69	13.20	20.33	21.13
P/E (F1)	22.45	23.48	22.16	16.36	23.48	22.46
Price/Sales (P/S)	7.27	7.27	2.55	3.04	11.58	4.40
Earnings Yield	4.46%	4.26%	4.33%	6.11%	4.26%	4.46%
Debt/Equity	0.47	0.22	0.77	0.31	0.13	0.67
Cash Flow (\$/share)	5.13	6.22	6.94	6.48	8.13	6.22
Growth Score	C	-	-	A	D	B
Hist. EPS Growth (3-5 yrs)	13.26%	14.94%	10.41%	23.03%	16.63%	11.28%
Proj. EPS Growth (F1/F0)	13.88%	12.58%	-6.51%	10.51%	3.55%	17.14%
Curr. Cash Flow Growth	7.25%	5.26%	5.26%	-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	1.01	1.07	1.34	1.57	1.02	1.11
Debt/Capital	32.20%	17.40%	44.59%	23.44%	11.36%	40.29%
Net Margin	29.01%	29.01%	10.13%	15.07%	46.39%	16.21%
Return on Equity	14.18%	18.23%	14.59%	18.23%	9.93%	16.89%
Sales/Assets	0.07	0.35	0.51	0.59	0.05	0.35
Proj. Sales Growth (F1/F0)	9.14%	8.65%	-1.54%	9.68%	3.66%	8.65%
Momentum Score	A	-	-	A	B	A
Daily Price Chg	-1.78%	-1.78%	0.91%	-2.86%	-1.08%	-1.01%
1 Week Price Chg	4.32%	0.58%	2.30%	0.41%	0.58%	1.19%
4 Week Price Chg	7.98%	0.08%	8.54%	-6.50%	0.08%	6.93%
12 Week Price Chg	3.29%	3.29%	13.68%	-16.76%	-11.01%	14.43%
52 Week Price Chg	9.47%	9.47%	3.71%	-27.97%	-22.10%	36.19%
20 Day Average Volume	2,956,874	702,240	2,015,804	782,021	1,684,311	702,240
(F1) EPS Est 1 week change	-0.03%	0.00%	0.00%	0.16%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.67%	0.00%	1.67%	-0.79%	-3.81%	2.83%
(F1) EPS Est 12 week change	-1.56%	-1.32%	2.27%	-1.32%	-9.12%	5.34%
(Q1) EPS Est Mthly Chg	-2.18%	-0.35%	0.67%	-4.49%	-10.50%	2.32%

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	A
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.

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