

Intercontinental(ICE)

\$96.77 (As of 01/17/20)

Price Target (6-12 Months): **\$102.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 01/11/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

Growth: C

Momentum: F

Summary

Shares of Intercontinental Exchange have outperformed the industry in a year's time. A compelling product and service portfolio along with broad range of risk management services and strength in global data services boost the company's revenue stream. Continued strength in its energy franchise, improving recurring market data revenues and ongoing initiatives are likely to keep growth on track. A strong balance sheet, 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 which include integration expenses, rebates, compensation and benefit expenses. Also, adverse foreign currency fluctuations and stricter regulations raise concerns. Increasing interest expenses due to higher long-term debt weigh on margin expansion.

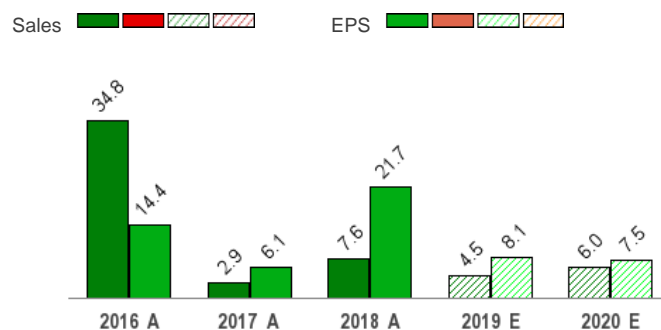
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$97.05 - \$71.90
20 Day Average Volume (sh)	2,197,253
Market Cap	\$53.9 B
YTD Price Change	4.6%
Beta	0.45
Dividend / Div Yld	\$1.10 / 1.1%
Industry	Securities and Exchanges
Zacks Industry Rank	Bottom 11% (227 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	11.6%
Last Sales Surprise	1.2%
EPS F1 Est- 4 week change	-1.2%
Expected Report Date	02/06/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,362 E	1,372 E	1,394 E	1,391 E	5,518 E
2019	1,270 A	1,298 A	1,336 A	1,300 E	5,204 E
2018	1,225 A	1,246 A	1,200 A	1,308 A	4,979 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.02 E	\$1.03 E	\$1.06 E	\$1.09 E	\$4.17 E
2019	\$0.92 A	\$0.94 A	\$1.06 A	\$0.95 E	\$3.88 E
2018	\$0.90 A	\$0.90 A	\$0.85 A	\$0.94 A	\$3.59 A

*Quarterly figures may not add up to annual.

P/E TTM	25.1
P/E F1	23.2
PEG F1	2.8
P/S TTM	8.2

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/17/2020. The reports text is as of 01/21/2020.

Overview

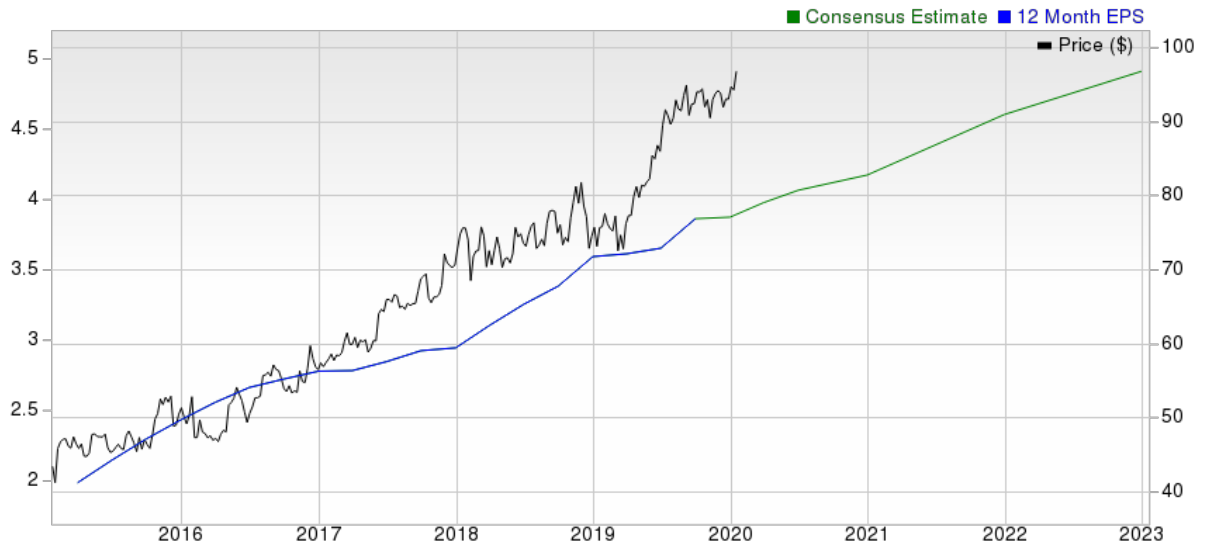
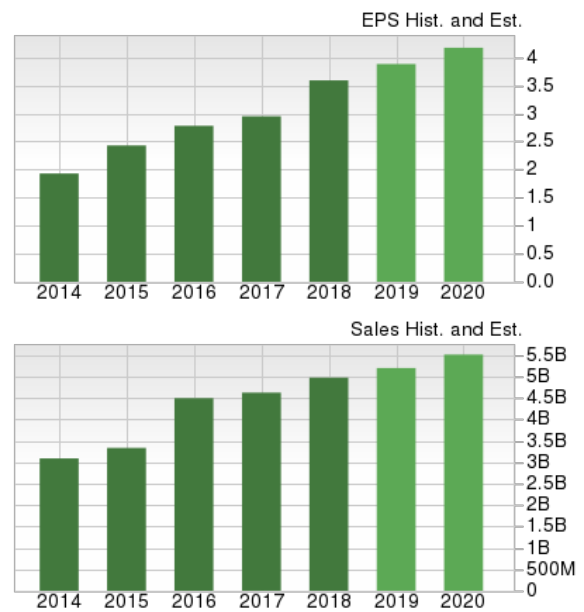
Established in 2000, a Fortune 500 company, Intercontinental Exchange, Inc. is a leading global operator of regulated exchanges, clearing houses and listings venues, and a provider of data services for commodity, financial, fixed income and equity markets. It operates regulated marketplaces for listing, trading and clearing of a broad array of derivatives contracts and securities across major asset classes, including energy and agricultural commodities, metals, interest rates, equities, exchange traded funds, or ETFs, credit derivatives, bonds and currencies. The company also offers comprehensive data services to support trading, investment, risk management and connectivity needs of customers around the world and across major asset classes. The company completed its initial public offering in November 2005.

The majority of the identifiable assets are located in the United States and the United Kingdom.

The business is conducted through two reportable business segments:

Trading and Clearing Segment (49% of 2018 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. It operates multiple trading venues, including 12 regulated exchanges and six clearing houses, which are strategically positioned in major market centers around the world, including the United States, United Kingdom, European Union, Canada and Singapore. Key products offered include Energy Futures and Options, Agricultural & Metals Futures and Options, Financial Futures and Options, Cash Equities and Equity Options, Fixed Income and Credit, OTC and Other Transactions and Other Revenue.

Data and Listings Segment (51% of 2018 revenues) provides a range of data and listing services for global financial and commodity markets, including pricing and reference data, exchange data, analytics, feeds, index services, desktops and connectivity solutions as well as corporate and ETF listing services on the company's cash equity exchanges. 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 27.9% in the past year, outperforming the industry's growth of 23.8%. Strong fundamentals should help the stock retain the bull run.
- ▲ ICE has a decent history of acquisitions that have not only fuelled its growth but have also led to achieving expense synergies. Management is on track with the targeted 2019 synergies of at least \$30 million that will enable the company to attain its initial commitment of \$180 million in synergies.
- ▲ 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 fourth-quarter data services revenues to be in the range of \$555 million to \$560 million compare it with last reported quarter figure in %).
- ▲ 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 8% year over year in the first nine months of 2019. In the first nine months of 2019, the company generated free cash flow of over \$1.7 billion and had returned over 90% of that cash to the 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 39.5% is higher than the industry average of about 28.4%. 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 the first nine months of 2019, the operating expenses increased 5%, primarily owing to higher compensation and benefits, professional services, technology and communication, selling, general and administrative, depreciation and amortization. For fourth quarter 2019, adjusted operating expenses are expected to be in a range of \$562 million to \$572 million. Moreover, interest expenses are estimated at \$71 million for the fourth quarter. 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.
- ▼ 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 Beats Q3 Earnings & Revenue Estimates

Intercontinental Exchange reported third-quarter 2019 adjusted earnings per share of \$1.06, beating the Zacks Consensus Estimate by 11.6%. Also, the bottom line improved 24.7% on a year-over-year basis.

The company witnessed improved operating income and growth in business segments.

Performance in Detail

Intercontinental Exchange's revenues of \$1.3 billion increased 11% year over year on higher transaction and clearing, data services and other revenues. Moreover, the top line beat the Zacks Consensus Estimate by 1.16%.

Net revenues of Trading and Clearing segment were \$669 million, up 20% year over year, while Data and Listings revenues were \$667 million, up 4% year over year

Total operating expenses rose 5.4% year over year to \$630 million, primarily due to higher compensation and benefits, professional services, technology and communication, depreciation and amortization. Adjusted operating expenses were \$551 million in the third quarter, up 5.8% from the year-ago quarter's figure.

Adjusted operating income improved 15.6% year over year to \$785 million.

Adjusted operating margin contracted 200 basis points (bps) from the year-ago quarter to 59%.

Trading and Clearing's adjusted operating income of \$438 million was up 24.4% year over year. Adjusted operating margin expanded 200 bps. Data and Listings' adjusted operating income rose 6.1% year over year to \$347 million and adjusted operating margin of 52% expanded 100 bps.

Total Futures & Options totaled 5.8 million contracts, up 12% year over year. Revenue per contract of \$1.10 increased 2% year over year.

Financial Update

As of Sep 30, 2019, Intercontinental Exchange had cash and cash equivalents of \$655 million, down 9.5% from the level as of Dec 31, 2018. Long-term debt of \$6.5 billion was up 0.1% from 2018-end level.

Total equity was \$17.2 billion as of Sep 30, 2019, down 0.3% from the level as of Dec 31, 2018.

Operating cash flow was \$1.9 billion in the third quarter of 2019, up 11.8% year over year. Free cash flow was \$1.7 billion, up 3.4% year over year.

Share Repurchase and Dividend Update

In the third quarter of 2019, the company bought back shares worth \$1.1 billion and paid out dividends amounting to \$467 million.

Q4 Guidance

Data revenues are estimated between \$555 million and \$560 million.

Operating expenses are projected in the range of \$637-\$647 million.

Adjusted operating expenses are expected to be in the range of \$562 million to \$572 million.

The company expects interest expense of \$71 million in the period.

Weighted average shares outstanding are anticipated between 557 million and 563 million.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	1.16%
EPS Surprise	11.58%
Quarterly EPS	1.06
Annual EPS (TTM)	3.86

Recent News

Intercontinental Exchange to Launch ESG Data Service - Jan, 14, 2020

Intercontinental Exchange is set to launch a data service in the second half of 2020 to cover the environmental, social and governance (ESG) factors for companies listed both in the United States and internationally.

The new data service is designed to aid investors in assessing ESG risks and opportunities by offering them information on metrics including reported greenhouse gas emissions and board diversity.

Intercontinental Exchange to Launch Futures Exchange in Abu Dhabi – Nov 11, 2019

Intercontinental Exchange is set to launch ICE Futures Abu Dhabi (IFAD). The contracts will be based on Abu Dhabi National Oil Company's (ADNOC) Murban crude oil. The exchange will allow trading in Murban crude-oil future contracts. Future contracts allow different parties such as buyers, producers, sellers, refiners, traders to lock in oil prices to protect themselves from any fluctuation.

Valuation

Intercontinental Exchange shares have gained 27.9% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Finance sector are up 23.8% and 11.7%, respectively.

The S&P 500 index is up nearly 23.8% in the past year.

The stock is currently trading at 23.07X forward 12-month earnings, which compares to 26.2X for the Zacks sub-industry, 14.73X for the Zacks sector and 19.19X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.47X and as low as 15.93X, with a 5-year median of 19.36X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$102 price target reflects 24.34X 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	23.07	26.2	14.73	19.19
	5-Year High	24.47	27.47	16.21	19.34
	5-Year Low	15.93	18.49	12.01	15.17
	5-Year Median	19.36	21.59	13.98	17.44
P/S F12M	Current	9.74	12.44	6.53	3.57
	5-Year High	9.93	12.94	6.61	3.57
	5-Year Low	5.94	7.27	5.2	2.54
	5-Year Median	7.93	9.62	6.04	3
P/B TTM	Current	3.14	3.33	2.86	4.55
	5-Year High	3.14	3.48	2.89	4.55
	5-Year Low	1.84	1.72	1.83	2.85
	5-Year Median	2.41	2.52	2.51	3.61

As of 01/20/2020

Industry Analysis Zacks Industry Rank: Bottom 11% (227 out of 254)



Top Peers

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

Industry Comparison Industry: Securities And Exchanges				Industry Peers		
	ICE Neutral	X Industry	S&P 500	CBOE Neutral	CME Neutral	NDAQ Neutral
VGM Score	F	-	-	D	F	D
Market Cap	53.89 B	18.00 B	24.65 B	12.91 B	74.13 B	18.00 B
# of Analysts	7	6	13	7	6	7
Dividend Yield	1.14%	1.24%	1.73%	1.24%	1.45%	1.72%
Value Score	F	-	-	F	F	D
Cash/Price	0.03	0.02	0.04	0.01	0.02	0.02
EV/EBITDA	17.63	17.18	14.11	16.73	24.09	14.70
PEG Ratio	2.82	2.72	2.08	4.01	3.51	2.22
Price/Book (P/B)	3.14	3.63	3.39	3.88	2.76	3.38
Price/Cash Flow (P/CF)	20.70	20.70	13.81	16.98	28.46	17.55
P/E (F1)	23.21	23.67	19.19	23.67	28.18	20.12
Price/Sales (P/S)	8.22	8.22	2.69	4.88	14.93	4.16
Earnings Yield	4.31%	4.22%	5.21%	4.22%	3.55%	4.97%
Debt/Equity	0.39	0.21	0.72	0.27	0.14	0.61
Cash Flow (\$/share)	4.68	5.21	6.94	6.86	7.27	6.23
Growth Score	C	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	14.53%	14.53%	10.56%	22.02%	16.70%	12.29%
Proj. EPS Growth (F1/F0)	7.47%	9.13%	7.57%	6.03%	7.94%	9.13%
Curr. Cash Flow Growth	16.44%	16.86%	14.73%	36.56%	41.54%	16.55%
Hist. Cash Flow Growth (3-5 yrs)	27.35%	17.35%	9.00%	29.42%	15.56%	12.48%
Current Ratio	1.00	1.03	1.24	2.46	1.04	0.95
Debt/Capital	28.51%	17.09%	42.99%	21.55%	12.62%	38.01%
Net Margin	31.97%	29.06%	11.14%	16.08%	40.93%	12.16%
Return on Equity	12.79%	17.21%	17.16%	17.21%	9.54%	15.22%
Sales/Assets	0.07	0.30	0.55	0.51	0.07	0.30
Proj. Sales Growth (F1/F0)	6.04%	6.04%	4.16%	5.70%	4.80%	4.62%
Momentum Score	F	-	-	F	F	A
Daily Price Chg	0.52%	0.52%	0.27%	-0.85%	-0.14%	0.92%
1 Week Price Chg	-0.44%	-1.33%	0.39%	-4.52%	0.26%	-1.33%
4 Week Price Chg	3.51%	1.05%	2.95%	-0.88%	1.05%	2.14%
12 Week Price Chg	4.15%	2.81%	7.76%	0.72%	1.78%	8.24%
52 Week Price Chg	29.28%	26.16%	22.29%	24.59%	14.12%	32.59%
20 Day Average Volume	2,197,253	528,961	1,536,375	569,142	1,210,457	528,961
(F1) EPS Est 1 week change	-1.05%	-0.14%	0.00%	-0.81%	-0.18%	0.02%
(F1) EPS Est 4 week change	-1.23%	-1.13%	0.00%	-1.87%	-0.99%	0.33%
(F1) EPS Est 12 week change	-1.46%	-1.56%	-0.40%	-3.77%	-2.09%	1.09%
(Q1) EPS Est Mthly Chg	0.72%	-0.43%	0.00%	-2.86%	-1.17%	0.41%

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	F
Growth Score	C
Momentum Score	F
VGM Score	F

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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