Initiating Coverage:

Intercontinental Exchange

The ICE Can't Be Melt

Key Take-Away: In the competitive financial services industry, Intercontinental Exchange (ICE) stands favorable to capture the ongoing macroeconomic tailwinds. Its topline benefits greatly from a diverse product and service portfolio, extensive risk management offerings, and unrivaled global data services. Its rising energy franchise and recurring market data revenues are expected to sustain their respective market share expansions. Not to mention, investors shouldn't be too concerned about the ongoing integration of Black Knight into ICE's mortgage platform given the firm's track record of successful acquisitions. Room for growth is also plenty, as ICE is well-positioned to take advantage of the accelerated digitization of the U.S. residential mortgage industry.

Yet, it is crucial to note that near-term expenses are likely to remain high, and concerns are raised by foreign currency fluctuations and stricter regulations. High interest expenses and leverage present additional risks, as ICE's shares have been underperforming the industry in the past year.

Financial Development: ICE reported first-quarter 2024 adjusted earnings per share of $1.48. Revenue, less transaction-based expenses, were a record $2.3 billion, up 21% year over year. Total operating expenses increased 32.4% year over year to $1.2 billion. This can be attributed to higher compensation and benefits, acquisition-related transaction and integration costs, as well as D&A expenses.

Expansion of ICE's data services: ICE's Data Services are experiencing significant growth due to rising demand for analytics and data-driven insights. Recent acquisitions have expanded the company's market presence, added advanced technology platforms, and bolstered risk management and valuation services.

ICE's Derivatives Contracts Traded: ICE boasts a substantial derivatives portfolio, ranking among the world's largest energy futures exchanges. It also offers derivatives on agricultural commodities, metals, and credit default swaps. Over recent years, the total volume of these derivatives has seen rapid growth. While volumes increased slightly in the last three years due to oil price volatility, interest rate derivatives saw a significant rise during the 2015-2018 rate hikes. In 2022, total volumes reached 1,014 million, and we anticipate continued growth in the coming years.

Valuation: We initiate coverage with a $170 PT.

Consortium Equity Research
FIG | Stock Exchanges
August 5th, 2024

Stock Rating:	Equal Weight
Price Target:	USD $171.42

Price:	$149.85
Potential Upside/Downside:	14.4%
Ticker(s):	$ICE

Market Cap:	$85.42b
Shares Outstanding:	574.1m
Free Float (%):	87.28%
Dividend Yield:	1.19%

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Industry Overview

Secular trends in the derivatives industry—such as the increasing need for risk management, innovation, and trader sophistication—are expected to drive healthy volume growth over time. New regulations will likely push more OTC trading onto regulated exchanges, leading to the clearing of OTC swaps, increased use of existing futures, and the development of new swap-like products. Following the NYX deal, ICE is well positioned to innovate in financial products. While a slow decline in revenue per contract is anticipated for existing business, volumes in interest rate, FX, and energy products may be currently depressed. As these volumes return to normal levels, firms like ICE, with exposure to rising volumes, could outperform. Consolidation is expected to continue as firms horizontally integrate across multiple asset classes and vertically integrate post-trade services like clearing.

Increasing demand for data services and products: Amid geopolitical turmoil and distressed market conditions, investors continue to seek data-driven advice and advanced technological products for improved earning opportunities. With an increased demand for data services and competitors like NASDAQ also cashing in on this demand, ICE's services catering to both equities and derivatives will put it in a leading position in the future.

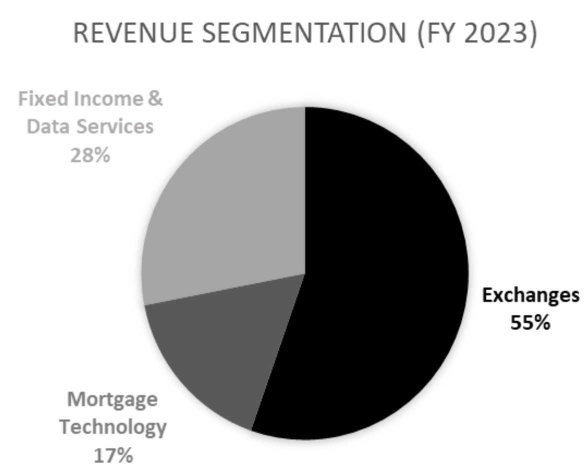
Intense competition among exchanges: Given the huge opportunity in Europe, almost all the major U.S. exchanges are trying to boost their presence across the Atlantic. NASDAQ has already launched a futures exchange in London, while CME is in the process of doing so. Both exchanges are likely to compete aggressively with ICE in the future to gain market share. The intense competition could also lead to price wars among these players and negatively impact profit margins.

Company Overview

Intercontinental Exchange (ICE) provides the technological infrastructure for the trading, listing, and analysis of a wide variety of financial products. It was founded in 2000 by Jeffrey Sprecher as a digital exchange to trade energy derivatives. He has successfully grown the company through numerous successful acquisitions, now operating with over 9,000 employees and a global presence particularly in the US, UK, EU, Canada, Singapore, and Abu Dhabi. ICE operates three main business segments: Exchanges, Fixed Income & Data Services, and Mortgage Technology.

Exchanges (55%): ICE owns 13 stock exchanges and 6 clearing houses, providing a platform to trade options and futures. These generate revenue through listing and trading fees.

The acquisition of NYSE provided ICE the ownership of cash equities, equity options, and listings franchises in the U.S. Collectively, these businesses account for just under 6% of the value of the company.



The derivatives business is the largest and fastest-growing division within the firm. It is also one of the most profitable segments. The division is likely to continue growing over the next few years as regulations around the world force over- the-counter (OTC) derivatives onto centralized clearing platforms similar to those operated by ICE.

Fixed Income & Data Services (28%): ICE collects subscription fees for their bond analytics and pricing platforms. Over half of the value in ICE's stock currently comes from its market data and technology business. This division sells market data to market participants, along with other services such as terminal access, direct access services, daily indexes, and end-of-day reports. Revenue from this division has grown recently due to an increase in the number of users and an increase in pricing, along with acquisitions undertaken.

Mortgage Technology (17%): ICE has digitized the mortgage acquisition process through newly-formed platform, collecting subscription fees. Over the last five years, Intercontinental Exchange has constructed an end-to-end network aimed at identifying and solving the inefficiencies that exist in the U.S. residential mortgage market. It includes Origination Technology, Closing Solutions, Data and Analytics.

Highlighted Financial Information:

Valuation Metrics	
Mkt. Cap	$85.4B
Shares Out.	574.1M
EV/EBITDA	19.9x
P/E	36.8x

Operating Statistics	
Revenue	8.8B
EBITDA	5.6B
Operating Margins	47.40%
Debt/EBITDA	3.93x

Investment Theses

Strong track record of acquisitions: ICE has a successful history of acquisitions that have not only fueled its growth but also led to achieving expense synergies. Such initiatives enhanced the company's product suite and services, which, in turn, aided bottom-line growth. The acquisition of mortgage-software firm Ellie Mae for $11 billion in a stock-cash transaction in September 2020 helped the acquirer to execute well in a $10 billion addressable market.

In September 2023, ICE acquired Black Knight to consolidate its presence as a provider of end-to- end electronic workflow solutions for the rapidly evolving U.S. residential mortgage industry. The deal is expected to reduce cost per mortgage origination, overlay the safety and soundness practices and create new products and services for lenders to increase homeownership, including in underserved communities. This apart, the company projects the transaction to be accretive to adjusted earnings per share in the first year post close, with adjusted earnings accretion accelerating thereafter, cost synergies of approximately $200 million, with one-third realized in year one, two-thirds by year three and 100% by year five and $125 million of net revenues synergies by year five, or 1% of expanded $14 billion addressable market. It expects to realize $135 million in annualized savings by the end of 2024.

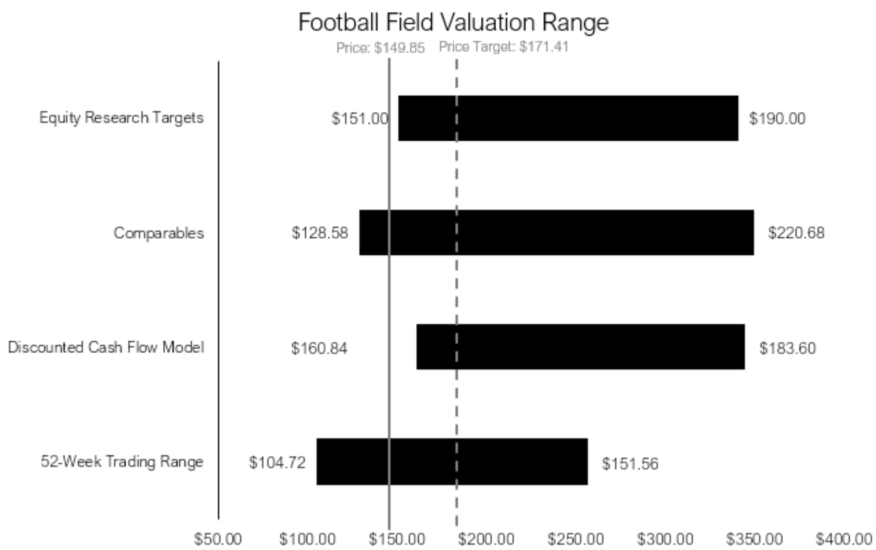
Revenue momentum: We believe ICE will retain its revenue momentum in the coming quarters, given its strength in global data services. In the first quarter of 2024, revenues in the Fixed Income and Data Services segment increased 1% year over year to $568 million. The increase in revenues was primarily due to strength in fixed income data and analytics products and other data and network services. Other Data & Network Services grew 4% in the first quarter, driven by feeds business and continued strength in oil and gas desktop solutions, both of which grew double digits year over year. The company estimates second-quarter year-over-year growth in overall recurring revenue to be similar to the first quarter, with year-over-year higher growth in the second half, driven by continued strong trends across fixed income data and analytics, and an acceleration in growth in other data and network services businesses. Increased activity owing to continued interest rate volatility, strength in index business and growth in pricing and reference data business, growth in ICE Global Network offering, coupled with strength in desktop, feeds and derivatives analytics revenues are likely to boost its data revenues in the days ahead.

Abundant room for growth: 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. Over the last year, ICE has launched over 250 new indices across fixed income, equities and commodities, including a growing number of ESG and thematic indices as well as custom indices. Its new index customization platform gives investors direct access to the tools they need to build and quickly back test their own index rules. Revenues in the company's fixed income credit business have been driven by ICE Mortgage Technology. This was owing to accelerated usage of digital mortgage solutions, robust refinancing trend, and buyer and builder segment. 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 launched the ICE ETF Hub in 2021 to serve the $1 trillion fixed income ETF industry with four new market makers recently joining the pilot program unveiled by ETF Hub in July 2020.

Strong balance sheet: ICE possesses an impeccable balance sheet with a solid cash and capital position. Riding on operational strength, the adjusted free cash flow grew 30.3% year over year to $877 million in the first quarter of 2024. A healthy and minimal risk-based balance sheet is likely to continue providing stability and buoyancy over the medium to long term while supporting strategic investments. As of Mar 31, 2024, the remaining balance of board approved funds for future repurchases was $2.5 billion. With respect to dividends, during the three months ended Mar 31, 2024, the company paid cash dividends for an aggregate payout of $258 million. The board of directors also approved a 7% increase to the dividend to 45 cents per share.

Price Target & Valuation

Our analysis gives ICE a price target of $171.42 and an Equal Weight rating.



Potential Downsides to Our Rating

Rates stay higher for longer: Components of ICE's mortgage and fixed income data business are largely sensitive to interest rates. If rates stay elevated for a longer period of time through the next 12-18 months, the top line of these businesses may be threatened. This concern, however, is mitigated by the Federal Reserve (Fed)'s recent economic indicators. July employment rate rose to 4.3%, highest in nearly three years, while CPI data continues its downward trend to 2.9%. With increasing recessionary pressures and a cooling inflationary environment, it is likely that the Fed will consider cutting rates. According to CME Group's Fed funds future market, traders currently predict a 78% probability of rates cut by 25 basis points in the Fed September meeting.

Energy trading revenue: ICE management could spend so much time integrating BKI and rounding out its mortgage data that its trading business gets less attention than needed. With that said, data-center and energy stocks have greatly benefitted from the AI narrative. We believe that the management team has the ability to recognize the rising role of energy futures trading, ICE's largest business, to be positioned for outsized growth as underlying energy demand and AI usage accelerate.

Our Price Target: $170.00

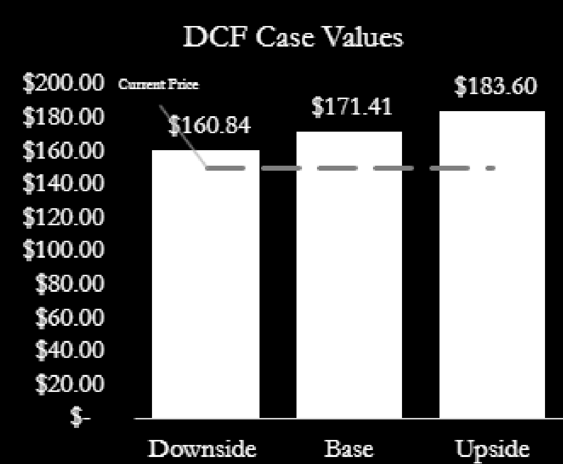
Our PT is based on the assumption that BKI becomes accretive in the next 2-3 months, and ICE delevers to 3.25x Debt/EBITDA by 2025. 30-year mortgage rates also drop below 6.5% by 2027, driving volume in mortgage originations. This trend is paired with an increase in IPOs, driving growth in the exchange segment.

Our Upside Case: $180.00

Our upside case is based on strong results in mortgage and data business within an improving rate environment. Black Knight becomes quickly accretive, and ICE delevers to 3x Debt/EBITDA by 2025. This development is supported by a best-in-class energy trading business that continues to gather share in both oil and natural gas.

Our Downside Case: $160.00

Our downside case is based on the management's failure in integrating BKI and rounding out its mortgage data strategy. ICE fails to delever to 3.25x by 2028. Yet, with extremely high probability of rates cut in September, rising mortgage and IPOs activities should help soften the company's integration and de-leveraging setbacks.



Fierce competition: 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 derivative 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, management is expected to proactively manage cash and liquid position as well as continue its acquisition streaks, thereby retaining its industry position.

Peers Comparison & Valuation

Company	Ticker	Market Cap ($bn)	Enterprise Value ($bn)	Gross Margin (LTM)	EBITDA Margin (LTM)	Revenue Growth (LTM)	EBITDA Growth (LTM)	EV/EBITDA (LTM)	P/E
CME Group	CME	$71.02	$72.53	100.00%	69.30%	10.72%	14.45%	18.1x	21.7x
Nasdaq	NDAQ	$37.01	$46.64	66.00%	36.60%	7.57%	21.05%	19.4x	37.4x
CBOE Global Markets	CBOE	$20.54	$21.43	52.40%	33.10%	-2.20%	10.21%	17.0x	27.2x
S&P Global	SPGI	$147.68	$161.78	68.10%	47.90%	10.09%	18.50%	25.4x	44.8x
Coinbase Global	COIN	$47.08	$44.32	86.10%	30%	74.22%	-	33.0x	34.8x
MarketAxess Holdings	MKTX	$8.45	$8.05	63%	50.30%	6.07%	2.60%	20.6x	32.1x
Moody's Corporation	MCO	$80.16	$84.92	73.00%	47.30%	18.56%	35.44%	27.4x	43.5x
MSCI	MSCI	$40.70	$44.91	82.10%	57.80%	15.03%	14.37%	28.7x	34.6x
Deutsche Börse	DBI	$36.66	$43.49	82.50%	44.70%	16.84%	12.39%	13.4x	18.6x
Intercontinental Exchange	ICE	$85.42	$106.72	100.00%	60.60%	19.67%	16.69%	19.9x	36.8x
	Low	$8.45	$8.05	52.40%	29.90%	-2.20%	2.60%	13.4x	18.6x
	25th Percentile	$32.63	$37.98	65.13%	35.73%	7.20%	11.30%	17.8x	25.8x
	Median	$43.89	$45.78	77.55%	47.60%	12.88%	14.45%	20.3x	34.7x
	Mean	$57.47	$63.48	77.27%	47.75%	17.66%	16.19%	22.3x	33.2x
	75th Percentile	$81.48	$90.37	89.58%	58.50%	18.84%	19.78%	27.7x	38.9x
	High	$147.68	$161.78	100.00%	69.30%	74.22%	35.44%	33.0x	44.8x

Source: S&P NetAdvantage

Compared amongst 9 competitors, ICE holds strong margins, stable revenue growth, and below-industry EV/EBITDA valuation. The implied share price can thus be calculated using the implied EV/EBITDA multiple of the 25th percentile, mean, and 75th percentile.

Case 1: 25th Percentile	
Implied Multiple	17.8x
LTM EBITDA	$5,341
Enterprise Value	$95,069.80
Less: Debt	($22,130)
Plus: Cash	$885
Equity Value	$73,824.80
Diluted Shares Outstanding	574.1
Implied Share Price	$128.58
Upside/Downside	(14.2%)

Case 2: Mean	
Implied Multiple	22.3x
LTM EBITDA	$5,341
Enterprise Value	$119,104.30
Less: Debt	($22,130)
Plus: Cash	$885
Equity Value	$97,859.30
Diluted Shares Outstanding	574.1
Implied Share Price	$170.44
Upside/Downside	13.7%

Case 3: 75th Percentile	
Implied Multiple	27.7x
LTM EBITDA	$5,341
Enterprise Value	$147,945.70
Less: Debt	($22,130)
Plus: Cash	$885
Equity Value	$126,700.70
Diluted Shares Outstand	574.1
Implied Share Price	$220.68
Upside/Downside	47.3%

Projections

Income Statement ($mm)	2023A	2024E	2025E	2026E	2027E	CAGR%
Revenue	7,988	8,387	8,815	9,274	9,765	1.8%
EBITDA	4,896	4,445	4,681	4,943	5,224	1.2%
EBIT	3,965	3,607	3,795	4,006	4,233	1.2%
EBIAT	2,154	2,480	1,922	3,419	3,509	4.3%

Margin & Growth Data	2023A	2024E	2025E	2026E	2027E	AVG%
EBITDA Margin	61.3%	53.0%	53.1%	53.3%	53.5%	54.8%
EBIT Margin	49.6%	43.0%	43.1%	43.2%	43.4%	44.4%
Revenue Growth	9.5%	5.0%	5.1%	5.2%	5.3%	6.0%
EBIT Growth	6.3%	-9.0%	5.2%	5.6%	5.7%	2.7%

Valuation Metrics	2023A	2024E	2025E	2026E	2027E	AVG%
P/FCF	-97.2x	15.4x	14.2x	13.1x	12.1x	-8.5x
EV/Sales	13.4x	12.8x	12.2x	11.6x	11.0x	12.2x
EV/EBITDA	21.9x	24.1x	22.9x	21.7x	20.5x	22.3x
FCF Yield	2.8%	3.3%	3.3%	9.1%	-1.0%	3.5%

About $ICE

Intercontinental Exchange is a leading global operator of exchanges, electronic over-the-counter (OTC) markets, and clearing houses. ICE operates equities and options exchanges in addition offering trading and clearing of derivatives on a wide variety of products, including energy, agricultural, interest rates, equity indexes, FX, and credit. ICE is also a provider of data and analytics services for commodity and financial, fixed income, and equity markets. The company has now become a sizable provider of US mortgage services through its acquisitions of MERSCorp (2018), Simplifile (2019), and Ellie Mae (2020).

Disclosures & Ratings

Consortium Equity Research does not hold any professional relationships with any reported equities. **Overweight** means the analyst team believes the stock price will outperform the coverage industry (TMT, Healthcare, Industrial, Consumer, FIG) in the next 6-12 months. **Equal Weight** means the team expects performance in line with the industry. **Underweight** means the team expects underperformance relative to the industry.