



ANALYST QUICK NOTES

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Intercontinental Exchange Inc. (NYSE: ICE: BUY)

Target Price: \$68

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Investment Thesis

- On Tuesday, Feb. 7, ICE reported 4Q EPS of \$0.71, up 11% from \$0.64 a year earlier.
 - Revenues matched consensus while ICE over-delivered on costs savings from IDC, leading to a \$0.02 earnings beat.
 - Key revenue drivers included pricing and analytics, and exchange data, up 14% and 12% respectively.
- Catalysts include greater IDC cost savings, upside from revenue cross-selling and strong demand for core products.
- ICE is benefiting from favorable secular trends that include:
 - Demand for real-time analytics.
 - Growth in passive and index investing.
 - Products for risk management and speculation.
 - Regulatory requirements driving demand for better transparency and reporting.
 - Volatility in equity, fixed-income, commodity and foreign exchange markets due to geopolitical uncertainties.
- Merger cost synergies following Interactive Data acquisition are trending down.
 - \$120 million in peak synergies in 2016 expected to fall to \$60 million in 2017.
 - Still, upside is likely as ICE has raised synergy guidance every quarter.
 - Meanwhile revenue cross-selling continues to ramp up.
 - We believe margin gains are a key catalyst for valuation improvement.
 - Op. margins were 57% in 4Q17, up from 53% a year earlier.
 - Our 6% revenue and 10% EPS growth estimate for 2017 implies a 58% operating margin.
 - Updated guidance calls for flat operating expenses.
- We expect exchange volumes to remain elevated.
 - Speculation on interest rates ahead of Fed decisions.
 - OPEC moves to reduce production.
 - Equity volatility at sector/stock level.

- IDC acquisition has diversified the revenue base.
 - Data & Listings now 54% of revenues, while Trading & Clearing is 46%.
 - Less dependency on more volatile trading volumes and new listing fees.
 - Capital return has ramped up.
 - Dividend increased 18% to \$0.80 annually, though 1.3% yield not central to our investment case.
 - Company expects \$200 million share repurchases in 1Q17 under current \$950 million program.
 - Argus is at \$3.05 EPS for 2017, slightly ahead of consensus.
 - Shares have historically traded at a forward P/E range in the high teens to low 20s, now at 18-times.
 - Our target price of \$68 (raised from \$63) implies a 22-times multiple on our 2017 estimate.
 - High end of valuation range supported by record operating margins.
 - Less-diversified peer CME Group trading at modestly higher 25-time 2017 estimate with similar margins.
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