

CME Group Inc. (CME)

\$182.44 (As of 04/06/20)

Price Target (6-12 Months): **\$192.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/05/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:D

Value: F

Growth: C

Momentum: D

Summary

CME Group remains well-poised for growth on strong market position driven by varied derivative product lines. Efforts to expand and cross sell through strategic alliances, acquisitions, new product initiatives and a stable global presence bode well. Product innovation and growing proportion of volume from customers outside the United States have been aiding results. The company intends to focus more on over-the-counter clearing services. Its shares have underperformed its industry in a year's time. However, escalating expenses — owing to higher compensation and benefits, technology expenses, depreciation, and others — raise its financial risks. Its diversified product portfolio is significantly exposed to volatile interest rate, firm government regulations and limited credit availability in unstable capital and credit market.

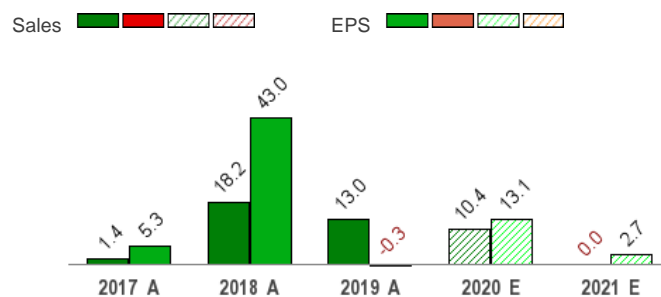
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$225.36 - \$131.80
20 Day Average Volume (sh)	3,411,633
Market Cap	\$65.4 B
YTD Price Change	-9.1%
Beta	0.35
Dividend / Div Yld	\$3.40 / 1.9%
Industry	Securities and Exchanges
Zacks Industry Rank	Top 4% (9 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-1.3%
Last Sales Surprise	-0.7%
EPS F1 Est- 4 week change	3.1%
Expected Report Date	04/29/2020
Earnings ESP	4.6%
P/E TTM	26.8
P/E F1	23.7
PEG F1	3.6
P/S TTM	13.4

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,361 E	1,384 E	1,390 E	1,368 E	5,374 E
2020	1,466 E	1,340 E	1,315 E	1,251 E	5,372 E
2019	1,180 A	1,273 A	1,277 A	1,138 A	4,868 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.91 E	\$2.01 E	\$2.03 E	\$1.88 E	\$7.90 E
2020	\$2.11 E	\$1.90 E	\$1.87 E	\$1.80 E	\$7.69 E
2019	\$1.62 A	\$1.76 A	\$1.90 A	\$1.52 A	\$6.80 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 04/06/2020. The reports text is as of 04/07/2020.

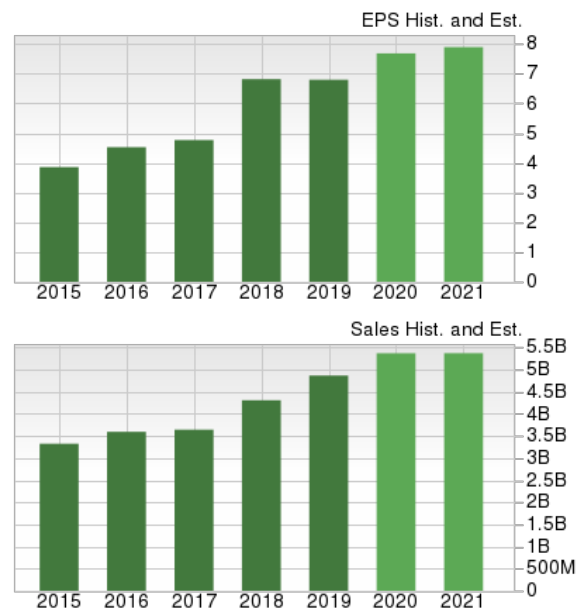
Overview

Formed in 2007 by the merger of the Chicago Mercantile Exchange (CME) and the Chicago Board of Trade (CBOT), CME Group is the largest futures exchange in the world in terms of trading volume as well as notional value traded. The Chicago Mercantile Exchange was originally formed as a non-profit organization in 1898, but was converted to a for-profit company in 2000. It became the first publicly traded financial exchange in the U.S. in Dec 2002. CBOT, established in 1848, is a leading futures and options exchange. In Apr 2005, CBOT converted into a for-profit stock-based holding company and for-profit membership exchange subsidiary.

CME Group offers a broad range of products covering major asset classes, based on interest rates, equity indexes, foreign exchange, energy, agricultural commodities and metals. Trades are executed through CME Group's electronic trading platforms, open outcry and privately negotiated transactions. CME Group also operates one of the world's leading central counterparty clearing providers through CME Clearing and CME Clearing Europe, which offer clearing and settlement services across asset classes for exchange-traded and over-the-counter derivatives.

Apart from CME and CBOT, the company operates New York Mercantile Exchange, Inc. (NYMEX) and Commodity Exchange, Inc. (COMEX), CME Clearing Europe Limited (CMECE) and CME Europe Limited (CME Europe). The company reports the results of its operations as one operating segment mainly comprised of CME, CBOT, NYMEX and COMEX.

CME Group's 81.1% revenues were derived from clearing and transaction fees in 2019. These fees include electronic trading fees, surcharges for privately negotiated transactions and other volume-related charges for exchange-traded and cleared swaps contracts. The company's product line includes **Interest-rate** trading, **Energy and Equity** trading contracts, **Foreign exchange**, **Agricultural commodities** and **Metal**.



Reasons To Buy:

- ▲ Shares of the company have gained 5.8% in a year, underperforming the industry's growth of 7.3%. Nevertheless, its solid fundamentals should help the stock continue performing well going forward.
- ▲ Organic growth has been CME Group's key strength as reflected in its revenue growth story. Revenues witnessed a CAGR of nearly 10% over the last five years (2015-2019) and nearly 13% in 2019. This upside was mainly driven by higher clearing and transaction fees plus market data and information services and other revenues. Also, we believe that the company should retain its revenue momentum in the coming quarters, given its sturdy market position with diverse derivative product lines and global reach. Growth was witnessed globally. Increasing electronic trading volume adds scalability and hence leverage to CME Group's operating model.
- ▲ Fundamental growth remains a huge driver for the company's improving operating leverage, through which CME group leads with about 90% market share of the global futures trading and clearing services. In addition to the expansion of futures products in emerging markets, non-transaction related opportunities and over the counter (OTC) offerings should continue to contribute to top-line growth. Its options business too gained traction. The company also notes structural shifts in both the crude and natural gas markets as the U.S. is now becoming the swing producer in these markets and thus expects to capitalize on and benefit from this shift.
- ▲ CME Group continuously weighs on strategic initiatives that will accelerate its growth. While in 2018 it shut down London-based derivatives exchange and clearing house, CME Europe and CME Clearing Europe to generate annual savings between \$10 million and \$12 million and free up over \$150 million in capital, it also exited credit default swap clearing business to focus on over-the-counter clearing services on interest rate swaps and foreign exchange. Also, the buyout of London-based NEX Group plc is expected to help the company emerge as a cross-border trading powerhouse. CME Group estimates \$200 million in run-rate cost synergies annually by the end of 2021 from this buyout.
- ▲ The company remains focused on making investments, which will make it convenient for clients to trade complex spread options on the box electronically. Currently, the company remains focused on investments in several areas, including organic market data growth and new product extensions and offerings. CME Group continues to maintain a solid liquidity position. The company holds a strong debt profile with no maturities until 2022. It envisions 1X debt-to-EBITDA by 2020 end. Additionally, modest liquidity supports healthy capital deployment via dividend payouts, thereby adding to the company's financial flexibility and investor confidence. CME Group pays five dividends per year with the fifth being variable, which is based on excess cash flow in the year. Since it commenced the variable dividend policy in early 2012, CME Group has returned more than \$12 billion in quarterly and variable dividends to its shareholders. On Feb 5, 2020, the company raised its quarterly dividend by 13% to 85 cents per share from the prior payout of 75 cents and made it an attractive pick for yield-seeking investors.
- ▲ Most of CME Group's long-term growth investments made in the past are showing desirable upsides. In September 2017, CME Group announced launch of CME FX link, enabling investors to trade on Globex. CME Group continues to launch products to address diverse needs of its customers. In September 2018, the company introduced a new interactive CME Liquidity Tool that will allow the market participants to make an analysis of liquidity, book depth and cost to trade statistics across the CME asset classes. This new tool has already garnered interest from clients worldwide. Also, the company mentioned the extension of the exclusive NASDAQ futures license through 2029, which will provide a seamless access to the NASDAQ product suite to its clients.

Efforts to expand futures products in emerging markets, non-transaction related opportunities, OTC offerings, cross-sell through alliances, strong global presence, solid liquidity should drive growth.

Reasons To Sell:

- ▼ CME Group's diversified product portfolio is significantly exposed to extreme interest rate volatility, currency fluctuation, firm government regulations and limited credit availability in the current unstable capital and credit markets, which can hamper liquidity and cause a decline in the customer demand lest this trade scenario continues or worsens in the future. Although the company has diversified its product array, it is still immensely dependent on trading volumes from two product lines for a significant portion of its clearing and transaction fee revenues, which poses concentration risk.
- ▼ Escalating total expenses remain a major concern for CME Group. Expenses have increased in the past few quarters mainly due to higher compensation and benefits, technology expenses, professional fees and outside services, licensing and other fee agreements, depreciation and amortization, and other. The metric increased nearly 28% and 34% in 2018 and 2019, respectively.
- ▼ Finally, the barriers to entry in electronic trading are much lower than in open-outcry markets and create intense competition, which has been affecting both volume and pricing at CME Group. The ongoing consolidation in the industry has raised caution over the sustainability factor of the sturdy groups and poses an uphill task to gain market share. The new clearing house from LME is further likely to heighten competition in the UK. CME Europe is also facing stiff competition from Eurex Exchange in FX trading. Therefore, the company requires aggressive measures to sustain the dynamically changing industry trends.

The ongoing weakness in derivative markets, escalating costs, exposure to interest rate volatility, currency fluctuation and intense competition remain key concerns for CME Group.

Last Earnings Report

CME Group's Earnings Lag Estimates in Q4, Drop Y/Y

CME Group reported fourth-quarter 2019 adjusted earnings per share of \$1.52, which missed the Zacks Consensus Estimate by 1.3%. The bottom line also declined 14.1% year over year, mainly due to lower revenues.

Performance in Detail

CME Group's revenues of \$1.1 billion decreased 8% year over year due to lower clearing and transaction fees. Moreover, the top line missed the Zacks Consensus Estimate by 0.8%. The year-over-year softness in revenues can be attributed to lower clearing and transaction fees (down 12.9% year over year).

Total expenses dipped 3.6% year over year to \$565.4 million during the reported quarter on account of weak compensation and benefits; professional fees and outside services; licensing and other fee agreements plus other expenses.

Operating income fell 11.8% from the prior-year quarter to \$573 million.

Average daily volume shrank 19% year over year to 16.9 million contracts in the quarter.

Financial Update

As of Dec 31, 2019, CME Group had \$1.6 billion of cash and marketable securities, up 12.9% from the level at 2018 end. As of Dec 31, 2019, long-term debt of \$3.7 billion slipped 2.2% from the figure at 2018 end.

As of Dec 31, 2019, the company had total assets worth \$75.2 billion, down 2.9% from the number at 2018 end.

Capital Deployment

CME Group declared dividends of \$2 billion for 2019 including the annual variable dividend worth \$894 million. The company returned \$13.2 billion to its shareholders in the form of dividends since the implementation of the variable dividend policy in early 2012.

Full-Year Update

Non-US ADV for 2019 reached a milestone of 4.9 million contracts, up 10% year over year, mainly attributable to growth in Europe, Asia and Latin America.

Total revenues for the year were \$4.8 billion, up 13% year over year. Adjusted earnings per share were \$6.80.

Quarter Ending **12/2019**

Report Date	Feb 12, 2020
Sales Surprise	-0.74%
EPS Surprise	-1.30%
Quarterly EPS	1.52
Annual EPS (TTM)	6.80

Recent News

CME Group's Volumes for March & Q1 Solid, Up Y/Y – Apr 02, 2020

CME Group Inc. reported average daily volume (ADV) for March 2020. The month recorded ADV of 32.1 million contracts per day, up 68% year over year on the back of increased contribution across all six product lines. Moreover, it increased 6.5% sequentially.

CME Group also reported first-quarter 2020 market statistics. The quarter recorded ADV of 27 million contracts, up 45% from first-quarter 2019.

CME Group to Launch Gold Futures Contract Amid Coronavirus Crisis – Mar 24, 2020

CME Group declared the launch of a gold futures contract with expanded delivery options. The new contract, following the fulfillment of regulatory approval, is projected to be in place by the end of April 2020. This launch was declared to settle and ease the interruptions to bullion trading caused by the novel coronavirus crisis.

CME Group to Close Trading Floor Amid Coronavirus Outbreak – Mar 11, 2020

CME Group Inc. will shut down its Chicago trading floor temporarily after business hours on Friday. The trading floor will remain closed till Mar 13, 2020.

This decision was taken as a precaution to limit large gatherings, which can lead to the spread of the coronavirus.

CME Group Reports Monthly Volume for February 2020 – Mar 3, 2020

CME Group reported average daily volume (ADV) for February 2020. Volumes increased 58% year over year to 30.1 million contracts during the month. Interest Rate options ADV of 17.1 million contracts surged 55% while Equity Indexes ADV of 6.2 million contracts increased 133%. Metals ADV increased 73% to a record 0.8 million and Energy ADV of 3.2 million increased 37%. Foreign Exchange ADV increased 35%.

CME Group Raises Quarterly Dividend — Feb 5, 2020

CME Group hiked its quarterly dividend of 85 cents per share from the prior payout of 75 cents. The new dividend will be paid out on Mar 25, 2020, to its shareholders of record as of Mar 10, 2020.

Valuation

CME Group's shares are down 9.1% and up 5.8% 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 11.2% and 33.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 7.3% and down 28.4%, respectively.

The S&P 500 index is down 22.6% in the year-to-date period and 14.2% in the past year.

The stock is currently trading at 24x forward 12-month earnings, which compares to 21.7x for the Zacks sub-industry, 10.9x for the Zacks sector and 15.7x for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.2x and as low as 18.9x, with a 5-year median of 24.3x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$192 price target reflects 25.3x earnings.

The table below shows summary valuation data for CME

Valuation Multiples - CME					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	24.04	21.69	10.92	15.73
	5-Year High	31.23	27.47	16.19	19.34
	5-Year Low	18.91	18.49	10.92	15.19
	5-Year Median	24.32	21.69	13.95	17.44
P/S F12M	Current	12.53	10.32	4.93	2.72
	5-Year High	16.63	12.94	6.65	3.44
	5-Year Low	7.7	7.27	4.93	2.54
	5-Year Median	11.71	10.05	6.03	3
P/B TTM	Current	2.5	2.86	1.84	3.31
	5-Year High	3.06	3.54	2.89	4.55
	5-Year Low	1.34	1.81	1.69	2.84
	5-Year Median	2.18	2.58	2.51	3.63

As of 04/06/2020

Industry Analysis Zacks Industry Rank: Top 4% (9 out of 253)



Top Peers

MarketAxess Holdings Inc. (MKTX)	Outperform
Nasdaq, Inc. (NDAQ)	Outperform
Cboe Global Markets, Inc. (CBOE)	Neutral
Intercontinental Exchange Inc. (ICE)	Neutral
Moodys Corporation (MCO)	Neutral
MSCI Inc (MSCI)	Neutral
OTC Markets Group Inc. (OTCM)	Neutral
Investnet, Inc (ENV)	Underperform

Industry Comparison Industry: Securities And Exchanges				Industry Peers		
	CME Neutral	X Industry	S&P 500	CBOE Neutral	ICE Neutral	NDAQ Outperform
VGM Score	D	-	-	C	C	D
Market Cap	65.39 B	16.76 B	18.06 B	10.48 B	46.36 B	16.76 B
# of Analysts	7	6.5	13	7	7	6
Dividend Yield	1.86%	1.52%	2.34%	1.52%	1.42%	1.85%
Value Score	F	-	-	D	D	D
Cash/Price	0.03	0.04	0.06	0.03	0.04	0.04
EV/EBITDA	20.20	14.62	11.15	15.27	14.62	14.58
PEG Ratio	3.59	2.16	1.87	3.35	2.04	1.84
Price/Book (P/B)	2.49	3.13	2.46	3.13	2.72	2.97
Price/Cash Flow (P/CF)	22.43	16.46	9.59	14.64	16.46	16.32
P/E (F1)	23.72	19.73	15.66	18.84	19.73	18.37
Price/Sales (P/S)	13.43	7.08	1.92	4.20	7.08	3.94
Earnings Yield	4.22%	5.07%	6.30%	5.31%	5.07%	5.44%
Debt/Equity	0.14	0.27	0.70	0.27	0.32	0.59
Cash Flow (\$/share)	8.13	6.22	7.01	6.48	5.13	6.22
Growth Score	C	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	16.44%	13.74%	10.92%	22.48%	13.74%	11.74%
Proj. EPS Growth (F1/F0)	13.07%	10.23%	0.33%	6.46%	10.27%	10.60%
Curr. Cash Flow Growth	12.13%	5.26%	5.93%	-6.75%	7.25%	0.39%
Hist. Cash Flow Growth (3-5 yrs)	16.24%	18.37%	8.55%	25.08%	15.62%	10.02%
Current Ratio	1.03	1.03	1.24	2.16	0.99	1.01
Debt/Capital	12.52%	21.41%	42.36%	21.41%	24.50%	37.11%
Net Margin	43.48%	29.52%	11.64%	14.99%	29.52%	18.15%
Return on Equity	9.22%	15.96%	16.74%	15.96%	12.77%	15.16%
Sales/Assets	0.07	0.31	0.54	0.48	0.07	0.31
Proj. Sales Growth (F1/F0)	10.35%	8.11%	1.00%	8.11%	8.70%	4.87%
Momentum Score	D	-	-	B	B	C
Daily Price Chg	5.01%	5.01%	7.93%	5.88%	4.25%	6.69%
1 Week Price Chg	1.40%	2.63%	-4.40%	-1.40%	-0.32%	2.63%
4 Week Price Chg	-10.97%	-8.78%	-6.89%	-15.10%	-4.73%	-3.91%
12 Week Price Chg	-10.63%	-10.63%	-24.81%	-17.55%	-11.15%	-5.14%
52 Week Price Chg	5.83%	9.65%	-17.63%	-0.73%	9.65%	14.45%
20 Day Average Volume	3,411,633	1,417,771	4,147,873	1,417,771	5,415,163	1,633,604
(F1) EPS Est 1 week change	0.71%	0.46%	0.00%	0.46%	0.77%	0.10%
(F1) EPS Est 4 week change	3.08%	1.00%	-4.97%	1.00%	1.53%	0.36%
(F1) EPS Est 12 week change	4.92%	1.52%	-6.79%	1.29%	1.59%	1.44%
(Q1) EPS Est Mthly Chg	-0.11%	0.53%	-7.32%	0.68%	0.81%	0.37%

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	D
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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