

CME Group Inc. (CME)

\$206.10 (As of 01/08/20)

Price Target (6-12 Months): **\$216.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 06/05/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

Growth: C

Momentum: F

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 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. The shares of this company have underperformed the industry in a year's time. However, its diversified product portfolio is significantly exposed to volatile interest rate, firm government regulations and limited credit availability in unstable capital and credit markets. Escalating expenses owing to higher compensation and benefits, technology expenses, depreciation and others raises the financial risks.

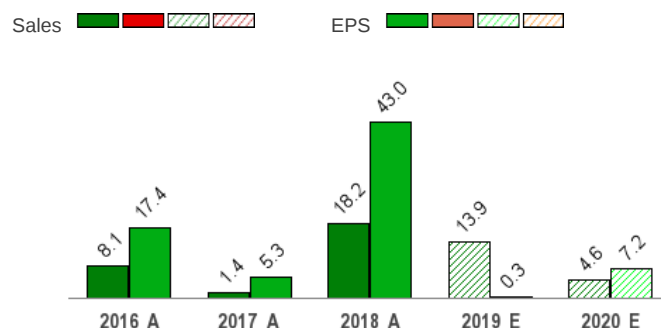
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$224.91 - \$161.05
20 Day Average Volume (sh)	1,188,327
Market Cap	\$73.9 B
YTD Price Change	2.7%
Beta	0.18
Dividend / Div Yld	\$3.00 / 1.5%
Industry	Securities and Exchanges
Zacks Industry Rank	Bottom 8% (233 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	8.6%
Last Sales Surprise	0.6%
EPS F1 Est- 4 week change	-0.9%
Expected Report Date	02/12/2020
Earnings ESP	-0.7%
P/E TTM	29.2
P/E F1	28.1
PEG F1	4.3
P/S TTM	14.9

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	1,243 E	1,341 E	1,332 E	1,272 E	5,136 E
2019	1,180 A	1,273 A	1,277 A	1,183 E	4,909 E
2018	1,109 A	1,060 A	904 A	1,237 A	4,309 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$1.76 E	\$1.86 E	\$1.89 E	\$1.86 E	\$7.33 E
2019	\$1.62 A	\$1.76 A	\$1.90 A	\$1.60 E	\$6.84 E
2018	\$1.86 A	\$1.74 A	\$1.45 A	\$1.77 A	\$6.82 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 01/08/2020. The reports text is as of 01/09/2020.

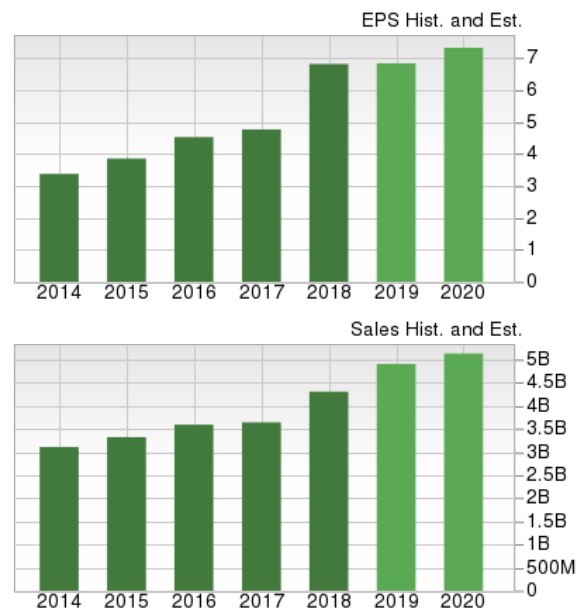
Overview

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.

Over 80% of CME Group's revenues are derived from clearing and transaction fees. 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 14.6% in a year's time, underperforming the industry's increase of 25.1%. 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 CAGR of 6.7% over the last five years (2014-2018) and another 21.4% in the first nine months of 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 6, 2019, the company raised its quarterly dividend by 7%, growing annual dividend by nearly 60% and making 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. The launch of Micro E-mini contracts on May 6, 2019 too showed results as the company witnessed 0.4 million contracts per day in June 2019.

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 increased 27% over the last five years. The same was up 53.8% in the first nine months of 2019, attributable to higher compensation and benefits, technology expenses, professional fees and outside services, licensing and other fee agreements, depreciation and amortization as well as other.
- ▼ 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 Q3 Earnings and Revenues Top Estimates

CME Group Inc. reported third-quarter 2019 adjusted earnings per share of \$1.90, which beat the Zacks Consensus Estimate by 8.6%. The bottom line increased 31% year over year. The upside was driven by solid trading volumes.

Performance in Detail

CME Group's revenues of \$1.3 billion increased 41.3% year over year. The top line beat the Zacks Consensus Estimate by 0.6%. The year-over-year increase in revenues can be attributed to higher clearing and transaction fees (up 38.3% year over year), market data and information services (up 17.3% year over year), and other (up 160% from the prior-year period).

Total expenses increased 67.1% year over year to \$592.1 million during the reported quarter, attributable to higher compensation and benefits, technology expenses, professional fees and outside services, licensing and other fee agreements, depreciation and amortization as well as other.

Operating income increased 24.6% from the prior-year quarter to \$685.2 million.

Average daily volume increased 30% year over year to 20.2 million contracts in the quarter. The upside was driven by strong, double-digit growth in interest rates, equity index and metals products, as well as robust trading volumes outside the United States. Options products and newer, innovative contracts like SOFR and Micro E-mini Equity futures contributed to substantial volume growth during the quarter.

CME Group's ADV transacted outside the United States reached 5.3 million contracts during the quarter, up 40% year over year, including 34% growth in Europe, 61% growth in Asia and 87% growth in greater Latin America.

Financial Update

As of Sep 30, 2019, CME Group had \$1.2 billion of cash and marketable securities, down 10.9% from 2018 end. As of Sep 30, 2019, long-term debt of \$3.9 billion increased 1.2% from 2018 end.

As of Sep 30, 2019, the company had total assets worth \$79.4 billion, up 2.5% from 2018 end.

Capital Deployment

CME Group paid \$268 million in dividends in the third quarter. The company has returned about \$12 billion to shareholders in the form of dividends since the implementation of the variable dividend policy in early 2012.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	0.60%
EPS Surprise	8.57%
Quarterly EPS	1.90
Annual EPS (TTM)	7.05

Recent News

CME Group Declars Annual Volume & Monthly Market Statistics - Jan 3, 2020

CME Group reported its December and full-year 2019 market statistics. Its average daily volume (ADV) for the year 2019 reached 19.2 million contracts and 15.5 million contracts for the month of December. At the end of December, open interest was 113 million contracts.

Metals ADV surged 20% from December 2018 on the back of 22% growth in precious metals futures and options and 15% growth in base metals futures and options. Also, Agricultural ADV increased 8% from December 2018.

CME Group Foreign Exchange Futures Reach New Records — Dec 13, 2019

CME Group announced its foreign exchange (FX) futures new single-day volume record of 2.7 million contracts on Dec 11, 2019, beating the prior record of 2.5 million contracts on Jun 14, 2017.

CME Group Announces Annual Variable Dividend — Dec 11, 2019

CME Group has approved its annual variable dividend of \$2.50 per share, payable Jan 15, 2020 to its shareholders as of record on Dec 27, 2019.

CME Group Enhanced NYMEX WTI Houston Crude Oil Futures Contract — Dec 5, 2019

CME Group has announced its enhanced product specifications and two additional delivery points for its WTI Houston crude oil futures contracts. The same is subject to regulatory review.

CME Group to Introduce Block Cheese Futures and Options — Nov 14, 2019

CME Group has announced that it will come up with Block Cheese futures and options in January 2020. However, the same is subject to regulatory review.

Valuation

CME Group shares have gained 14.6% over the trailing 12-month period. Over the past year, stocks in the Zacks sub-industry and the Zacks Finance sector are up 25.1% and 14.6% respectively.

The S&P 500 index is up 24.3% in the past year.

The stock is currently trading at 28.08X forward 12-month earnings, which compares to 25.75X for the Zacks sub-industry, 14.74X for the Zacks sector and 18.82X for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.23X and as low as 19X, with a 5-year median of 24.09X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$216 price target reflects 29.46X forward 12-month earnings.

The table below shows summary valuation data for CME

Valuation Multiples - CME					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	28.08	25.75	14.74	18.82
	5-Year High	31.23	27.47	16.21	19.34
	5-Year Low	19	18.49	12.01	15.17
	5-Year Median	24.09	21.59	13.98	17.44
P/S F12M	Current	14.34	12.23	6.53	3.49
	5-Year High	16.63	12.94	6.62	3.49
	5-Year Low	7.7	7.27	5.2	2.54
	5-Year Median	11.11	9.62	6.04	3
P/B TTM	Current	2.76	3.27	2.82	4.44
	5-Year High	3.02	3.48	2.89	4.45
	5-Year Low	1.34	1.72	1.83	2.85
	5-Year Median	2.05	2.51	2.5	3.61

As of 01/08/2020

Industry Analysis Zacks Industry Rank: Bottom 8% (233 out of 254)



Top Peers

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

Industry Comparison Industry: Securities And Exchanges				Industry Peers		
	CME Neutral	X Industry	S&P 500	CBOE Neutral	ICE Neutral	NDAQ Neutral
VGM Score	F	-	-	D	D	D
Market Cap	73.86 B	17.43 B	23.84 B	12.96 B	52.12 B	17.43 B
# of Analysts	6	6	13	6	6	6
Dividend Yield	1.46%	1.25%	1.79%	1.23%	1.18%	1.78%
Value Score	F	-	-	F	F	D
Cash/Price	0.02	0.02	0.04	0.01	0.03	0.02
EV/EBITDA	24.01	17.11	13.88	16.80	17.11	14.30
PEG Ratio	4.26	2.69	2.02	3.29	2.69	2.17
Price/Book (P/B)	2.75	3.90	3.33	3.90	3.03	3.27
Price/Cash Flow (P/CF)	28.36	20.02	13.76	17.05	20.02	17.00
P/E (F1)	28.12	23.58	18.76	23.54	22.23	19.51
Price/Sales (P/S)	14.87	7.95	2.63	4.90	7.95	4.02
Earnings Yield	3.56%	4.23%	5.32%	4.25%	4.50%	5.12%
Debt/Equity	0.14	0.27	0.72	0.27	0.39	0.61
Cash Flow (\$/share)	7.27	5.21	6.94	6.86	4.68	6.23
Growth Score	C	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	16.70%	15.62%	10.56%	22.02%	14.53%	12.29%
Proj. EPS Growth (F1/F0)	7.09%	8.63%	7.46%	6.99%	8.08%	9.19%
Curr. Cash Flow Growth	41.54%	16.86%	14.83%	36.56%	16.44%	16.55%
Hist. Cash Flow Growth (3-5 yrs)	15.56%	17.35%	9.00%	29.42%	27.35%	12.48%
Current Ratio	1.04	1.04	1.23	2.46	1.00	0.95
Debt/Capital	12.62%	21.55%	42.99%	21.55%	28.51%	38.01%
Net Margin	40.93%	28.84%	11.08%	16.08%	31.97%	12.16%
Return on Equity	9.54%	16.22%	17.16%	17.21%	12.79%	15.22%
Sales/Assets	0.07	0.41	0.55	0.51	0.07	0.30
Proj. Sales Growth (F1/F0)	4.61%	6.04%	4.16%	6.26%	5.81%	4.38%
Momentum Score	F	-	-	F	B	A
Daily Price Chg	0.54%	-0.55%	0.39%	-1.02%	-0.88%	-0.55%
1 Week Price Chg	0.87%	0.87%	-0.30%	2.10%	1.80%	0.27%
4 Week Price Chg	0.68%	1.13%	2.38%	1.13%	1.40%	1.87%
12 Week Price Chg	-2.79%	0.57%	6.40%	1.32%	0.00%	7.92%
52 Week Price Chg	15.42%	26.87%	22.97%	26.09%	29.21%	32.34%
20 Day Average Volume	1,188,327	523,004	1,610,101	569,321	2,505,192	523,004
(F1) EPS Est 1 week change	-0.23%	-0.18%	0.00%	-0.27%	-0.12%	0.00%
(F1) EPS Est 4 week change	-0.95%	-0.99%	0.00%	-1.23%	-0.28%	0.15%
(F1) EPS Est 12 week change	-2.05%	-1.63%	-0.50%	-2.82%	-0.36%	0.81%
(Q1) EPS Est Mthly Chg	-1.45%	-0.72%	0.00%	-2.54%	0.92%	0.06%

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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