

## CME Group Inc. (CME)

**\$174.61** (As of 08/17/20)

Price Target (6-12 Months): **\$146.00**

Long Term: 6-12 Months

**Zacks Recommendation:** Underperform

(Since: 07/30/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**5-Strong Sell**

Zacks Style Scores:

VGM:F

Value: F

Growth: D

Momentum: C

### Summary

Shares of CME Group have underperformed its industry year to date. Escalating expenses due to higher technology cost are likely to put pressure on margin expansion. Diversified product portfolio is significantly exposed to volatile interest rate, firm government regulations and limited credit availability in unstable capital and credit market. Stiff competition also poses financial risk. Nonetheless, strong market position driven by varied derivative product lines bodes well. 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. It intends to focus more on over-the-counter clearing services. CME's second-quarter earnings beat estimates.

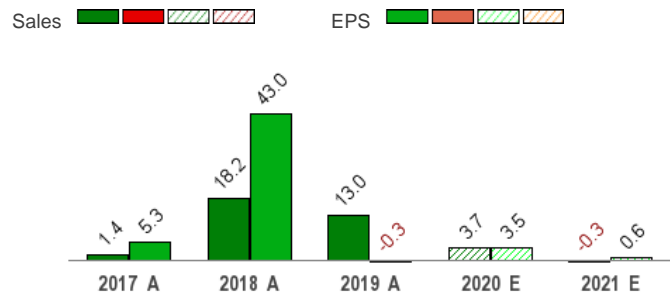
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$225.36 - \$131.80
20 Day Average Volume (sh)	1,703,394
Market Cap	\$62.5 B
YTD Price Change	-13.0%
Beta	0.30
Dividend / Div Yld	\$3.40 / 1.9%
Industry	<a href="#">Securities and Exchanges</a>
Zacks Industry Rank	Bottom 17% (210 out of 252)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.6%
Last Sales Surprise	-1.1%
EPS F1 Est- 4 week change	-3.2%
Expected Report Date	11/04/2020
Earnings ESP	-2.2%
P/E TTM	23.7
P/E F1	24.8
PEG F1	4.7
P/S TTM	12.2

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,268 E	1,272 E	1,280 E	1,274 E	5,033 E
2020	1,522 A	1,182 A	1,164 E	1,178 E	5,046 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	\$1.88 E	\$1.78 E	\$1.83 E	\$1.75 E	\$7.08 E
2020	\$2.33 A	\$1.63 A	\$1.52 E	\$1.56 E	\$7.04 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 08/17/2020. The reports text is as of 08/18/2020.

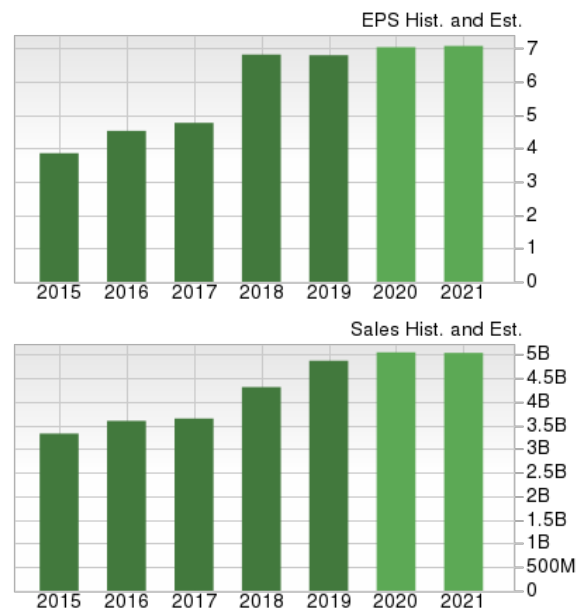
## Overview

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**.



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## Reasons To Sell:

- ▼ Shares of the company have lost 13% year to date, against the industry's increase of 3.9%. Escalating total expenses, diversified product portfolio significantly exposed to extreme interest rate volatility likely to weigh on share performances.
- ▼ 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. Furthermore, a low interest rate environment in the United States as well as the COVID-19 pandemic is adding to the insurer's woes as it is likely to keep margins under pressure. 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. However, expenses declined 1.4% in the first half of 2020. For 2020, CME Group expects operating expenses excluding license fees of about \$1.595 billion, down from \$1.64-\$1.65 billion. However, the company estimates higher spending in the next year.
- ▼ 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.

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## Risks

- 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). The top line improved 10.3% in first-half 2020, courtesy of higher clearing and transaction fees, 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. However, the COVID-19 pandemic is putting the global oil market under pressure, which is already grappling with declining demand and oversupply issues.
  - 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. Since its acquired unit NEX Exchange has been incurring losses, the decision of divesting the unit to Aquis Exchange plc also bodes well.
  - 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, with cash and cash equivalents amounting to \$1.5 billion as of Jun 30, 2020. The company holds a strong debt profile with no maturities until 2022. It has achieved its target of 1X debt-to-EBITDA in the first quarter only, which it had aimed to achieve by 2020 end. Long-term debt was \$3.4 billion at second-quarter end, down 8.1% from the 2019-end level. Further, the company's times interest earned of 18.9 in the second quarter of 2020 was higher than year-ago quarter's figure of 14.7, implying that its earnings are sufficient to cover interest obligations.
  - 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. It has also been increasing dividend each year, growing at a five-year CAGR of 7.2%. Its dividend yield of 2.1% is better than the industry average of 1.5%, making the stock 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, allowing 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.
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## Last Earnings Report

**CME Group** reported second-quarter 2020 adjusted earnings per share of \$1.63, which beat the Zacks Consensus Estimate by 0.6%. The bottom line decreased 7.4% year over year due to lower clearing and transaction fees. Average daily volume decreased in four out of the six products lines.

### Performance in Detail

CME Group's revenues of \$1.2 billion decreased 7.1% year over year. The year-over-year decrease is primarily attributable to lower clearing and transaction fees (down 10.6% year over year), partially offset by higher market data and information services (up nearly 5% year over year), and other (up nearly 16% from the prior-year period). The top line missed the Zacks Consensus Estimate by 1.1%.

Total expenses decreased 5.1% year over year to \$544.8 million during the reported quarter, attributable to lower depreciation and amortization as well as other expenses.

Operating income decreased 8.5% from the prior-year quarter to \$637.5 million.

Average daily volume decreased 15.9% year over year to 17.6 million contracts in the quarter. Average rate per contract increased 5.5%.

### Financial Update

As of Jun 30, 2020, CME Group had \$1.5 billion of cash and marketable securities, down 8.6% from 2019 end. As of Jun 30, 2019, long-term debt of \$3.4 billion decreased 8.1% from 2018 end.

As of Jun 30, 2020, the company had total assets worth \$117.2 billion, up 55.8% from 2019 end.

### Capital Deployment

CME Group paid out \$304 million in dividends in the second quarter. The company has returned about \$13.8 billion to shareholders in the form of dividends since the implementation of the variable dividend policy in early 2012.

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Quarter Ending	06/2020
Report Date	Jul 29, 2020
Sales Surprise	-1.06%
EPS Surprise	0.62%
Quarterly EPS	1.63
Annual EPS (TTM)	7.38

## Recent News

### CME Group & Nasdaq Partner to Launch Futures on VOLQ - Aug 13, 2020

CME Group partnered with Nasdaq to unveil a new futures contract on the Nasdaq-100 Volatility Index. With the launch of VOLQ futures, increasing demand for tools to hedge portfolio volatility exposure will be fulfilled immediately. Further, it will enhance the highly liquid Nasdaq futures and options product line, which also includes the E-mini and Micro E-mini Nasdaq-100 contracts.

### CME Group Declares Quarterly Dividend — Aug 6, 2020

The board of directors of CME Group declared a quarterly dividend of 85 cents per share. The dividend will be paid out on Sep 25 to shareholders of record as of Sep 10.

### CME Group July Volumes Down Year Over Year – Aug 4, 2020

CME Group reported average daily volume (ADV) for July 2020. The month recorded ADV of 13.6 million contracts per day, down 18% year over year due to poor performance across five product lines. Options volume was 2 million contracts per day.

Energy volume of 1.7 million contracts decreased 22% year over year. Interest rate volume of 4 million contracts per day decreased 55% while Equity index volume of 5.2 million contracts per day increased 82%. Also, Metals volume of 0.7 million contracts per day decreased 5% whereas Foreign exchange volumes decreased 29% to 0.7 million contracts per day. Agricultural volume of 1.3 million contracts per day decreased 3% year over year.

### CME Group's Cloud Solution to Assist in Accessing Delayed Data – Jul 15, 2020

CME Group announced that customers can utilize Google Cloud for accessing its delayed and JavaScript Object Notation (JSON) formatted futures data. Notably, extension of such cloud solutions are likely to enable customers in utilizing CME group's diverse suite of market data products more efficiently for making informed trading decisions.

## Valuation

CME Group's shares are down 13% and 19.4% 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 3.9% and 16% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are up 1.3% and down 7.2%, respectively.

The S&P 500 index is up 4.8% in the year-to-date period and up 15.8% in the past year.

The stock is currently trading at 24.71x forward 12-month earnings, which compares to 25.46x for the Zacks sub-industry, 16.65x for the Zacks sector and 22.87x for the S&P 500 index.

Over the past five years, the stock has traded as high as 31.23x and as low as 18.24x, with a 5-year median of 24.32x. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$146 price target reflects 21.06x earnings.

The table below shows summary valuation data for CME

Valuation Multiples - CME					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	24.71	25.46	16.65	22.87
	5-Year High	31.23	27.47	16.65	22.87
	5-Year Low	18.24	18.49	11.6	15.25
	5-Year Median	24.32	22.17	14.26	17.58
P/S F12M	Current	12.4	12.03	6.22	3.71
	5-Year High	16.63	12.94	6.67	3.71
	5-Year Low	7.7	7.27	4.97	2.53
	5-Year Median	12.02	10.43	6.06	3.05
P/B TTM	Current	2.33	3.29	2.48	4.54
	5-Year High	3.06	3.54	2.91	4.56
	5-Year Low	1.34	1.81	1.72	2.83
	5-Year Median	2.29	2.71	2.53	3.74

As of 08/17/2020

## Industry Analysis Zacks Industry Rank: Bottom 17% (210 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Envestnet, Inc. (ENV)	Outperform	1
MarketAxess Holdings Inc. (MKTX)	Outperform	2
Cboe Global Markets, Inc. (CBOE)	Neutral	4
Intercontinental Exchange Inc. (ICE)	Neutral	4
Moodys Corporation (MCO)	Neutral	3
MSCI Inc (MSCI)	Neutral	3
Nasdaq, Inc. (NDAQ)	Neutral	3
OTC Markets Group Inc. (OTCM)	Neutral	2

Industry Comparison Industry: Securities And Exchanges				Industry Peers		
	CME	X Industry	S&P 500	CBOE	ICE	NDAQ
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	5	-	-	4	4	3
VGM Score	F	-	-	B	D	C
Market Cap	62.46 B	21.40 B	23.75 B	9.77 B	56.53 B	21.40 B
# of Analysts	7	7	14	7	7	7
Dividend Yield	1.95%	1.50%	1.62%	1.60%	1.15%	1.50%
Value Score	F	-	-	D	D	D
Cash/Price	0.02	0.04	0.07	0.04	0.03	0.04
EV/EBITDA	19.28	18.27	13.49	14.30	18.27	18.26
PEG Ratio	4.67	2.81	3.03	6.14	2.77	2.59
Price/Book (P/B)	2.33	3.72	3.18	2.97	3.33	3.72
Price/Cash Flow (P/CF)	21.47	20.94	12.85	13.86	20.29	20.94
P/E (F1)	24.58	24.80	22.17	17.18	23.58	22.25
Price/Sales (P/S)	12.20	7.63	2.49	3.19	7.63	4.36
Earnings Yield	4.03%	4.03%	4.32%	5.82%	4.24%	4.50%
Debt/Equity	0.13	0.22	0.77	0.31	0.47	0.67
Cash Flow (\$/share)	8.13	6.22	6.94	6.48	5.13	6.22
Growth Score	D	-	-	A	C	B
Hist. EPS Growth (3-5 yrs)	16.63%	14.94%	10.44%	23.03%	13.26%	11.28%
Proj. EPS Growth (F1/F0)	3.55%	12.58%	-5.97%	10.51%	13.73%	17.14%
Curr. Cash Flow Growth	12.13%	5.26%	5.22%	-6.75%	7.25%	0.39%
Hist. Cash Flow Growth (3-5 yrs)	16.24%	18.37%	8.52%	25.08%	15.62%	10.02%
Current Ratio	1.02	1.07	1.33	1.57	1.01	1.11
Debt/Capital	11.36%	17.40%	44.59%	23.44%	32.20%	40.29%
Net Margin	46.39%	29.01%	10.13%	15.07%	29.01%	16.21%
Return on Equity	9.93%	18.23%	14.51%	18.23%	14.18%	16.89%
Sales/Assets	0.05	0.35	0.51	0.59	0.07	0.35
Proj. Sales Growth (F1/F0)	3.66%	9.14%	-1.67%	9.68%	9.14%	8.66%
Momentum Score	C	-	-	D	C	B
Daily Price Chg	1.85%	1.52%	-0.02%	1.77%	1.52%	0.83%
1 Week Price Chg	2.57%	0.23%	1.09%	0.23%	1.52%	-2.73%
4 Week Price Chg	4.00%	-0.75%	4.83%	-3.75%	10.40%	-0.75%
12 Week Price Chg	-2.34%	7.40%	13.09%	-9.56%	10.96%	12.98%
52 Week Price Chg	-19.42%	12.06%	2.77%	-25.36%	12.06%	31.07%
20 Day Average Volume	1,703,394	765,902	1,932,479	813,707	3,380,853	765,902
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	-0.13%	0.00%
(F1) EPS Est 4 week change	-3.20%	0.00%	1.80%	-0.79%	-0.16%	3.04%
(F1) EPS Est 12 week change	-8.81%	-1.32%	2.88%	-1.32%	-1.78%	5.16%
(Q1) EPS Est Mthly Chg	-7.98%	-0.35%	0.80%	-4.22%	-0.92%	2.69%

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## 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.

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### 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	D
Momentum Score	C
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.

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### Disclosures

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