CME Group Inc. (CME)

Updated November 8th, 2024 by Samuel Smith

Key Metrics

Current Price:	$226	**5 Year CAGR Estimate:**	2.6%	**Market Cap:**	$81 B
Fair Value Price:	$192	**5 Year Growth Estimate:**	3.8%	**Ex-Dividend Date:**	12/9/24
% Fair Value:	118%	**5 Year Valuation Multiple Estimate:**	-3.2%	**Dividend Payment Date:**	12/27/24
Dividend Yield:	2.0%	**5 Year Price Target**	$231	**Years Of Dividend Growth:**	19
Dividend Risk Score:	D	**Retirement Suitability Score:**	D	**Rating:**	Sell

Overview & Current Events

CME Group is a Chicago-based company that operates futures and derivatives exchanges based on interest rates, equities, currencies, and commodities. The company was founded in 1898 but didn't IPO until 2002. Since then, CME Group has pursued industry consolidation through mergers (CBOT Holdings) and acquisitions (Nymex Holdings).

CME Group Inc. (NASDAQ: CME) reported its third-quarter 2024 financial results on October 23, 2024, with earnings per share (EPS) of $2.68, surpassing analyst expectations by $0.03. The company achieved record revenue of $1.6 billion, although the reported revenue of $1.58 billion represented an 18.43% year-over-year increase but fell short of projections by $9.98 million. Operating income for the quarter reached $1.0 billion, while net income was $913 million, translating to a diluted EPS of $2.50. On an adjusted basis, net income rose to $977 million, with diluted earnings per common share of $2.68. CME Group marked a historic quarter with a record quarterly Average Daily Volume (ADV) of 28.3 million contracts, reflecting the second consecutive quarter of volume and open interest growth across every asset class. Financial product volumes surged by 28%, driven by a 36% increase in interest rates to a record ADV of 14.9 million contracts. SOFR futures saw a 35% rise to a record ADV of 4.1 million contracts, and Treasuries grew by 31% to an ADV of 8.4 million contracts. Additionally, commodities volume increased by 20%, options by 27%, and international ADV reached a record 8.4 million contracts. Clearing and transaction fees revenue totaled $1.3 billion, with an average rate of $0.666 per contract, while market data revenue was $178 million. As of September 30, 2024, CME Group held approximately $2.6 billion in cash and cash equivalents, including $250 million with the Fixed Income Clearing Corporation, and maintained $3.4 billion in debt. The company returned approximately $419 million in dividends during the quarter and has cumulatively returned around $25.6 billion to shareholders since adopting its variable dividend policy in 2012. CEO Terry Duffy highlighted the unprecedented growth and strong performance across all segments, underscoring CME Group's leadership in the financial markets.

Growth On A Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	$3.35	$3.69	$4.53	$11.94	$5.71	$6.85	$6.72	$6.67	$7.97	$9.34	***$9.59***	***$11.55***
DPS	$1.88	$2.00	$2.40	$2.64	$2.80	$3.00	$3.40	$3.60	$4.00	$4.40	***$4.60***	***$5.65***
Shares[1]	337.3	338.4	339.7	340.4	357.8	358.4	359.0	358.6	359.7	360.0	***359.4***	***360.0***

Looking ahead we anticipate 3.8% average annual earnings per share growth over the next half decade. The main tailwind for the company is volatility in the public markets for the foreseeable future as there remains enormous uncertainty on how various trade, geopolitical, global growth, and interest rate scenarios will play out to direct the near-term future of the American and global economies. Finally, we see the company's extensive network and large volume enabling it to drive growth through starting ancillary services and exchange products, as well as selling order flow data to third parties. As a result, we expect CME Group to continue growing earnings-per-share at a slow but steady clip for the foreseeable future.

[1] In millions

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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	17.6	23.3	24.2	19.6	9.7	25.6	24.7	32.8	21.8	23.1	***23.6***	***20.0***
Avg. Yld.	3.2%	2.3%	2.2%	1.1%	5.1%	1.7%	2.0%	1.6%	2.3%	2.0%	***2.0%***	***2.4%***

The stock currently trades at 23.6 times expected 2024 earnings. We believe that, while the market is experiencing near-term expectations of continued increases in volatility to drive growth in earnings, over the next several years growth will slow considerably. As a result, we are maintaining our fair value estimate of 20x earnings and believe the stock is overvalued at present.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	56%	54%	53%	22%	49%	44%	51%	54%	50%	47%	***48%***	***49%***

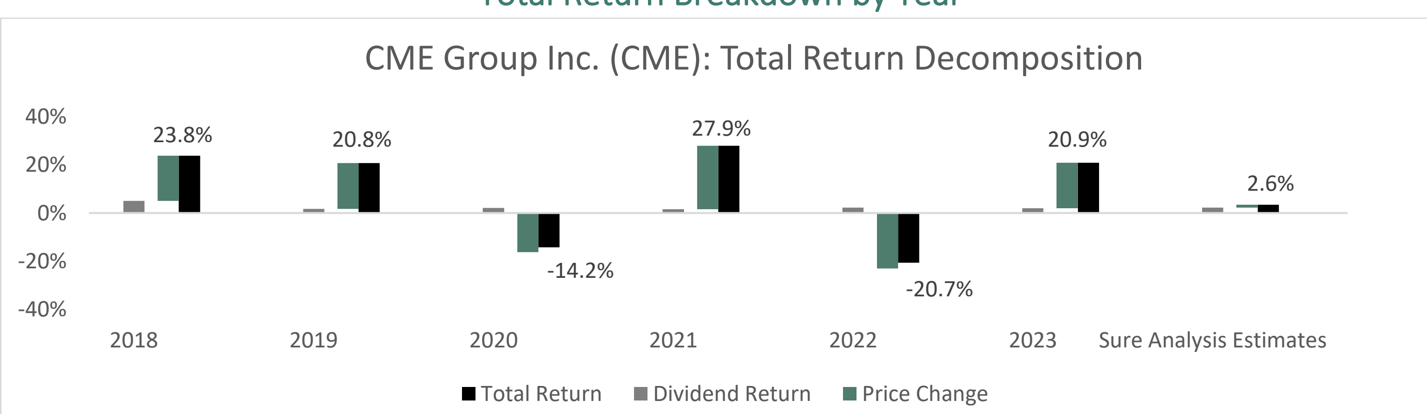
CME Group's biggest competitive advantage is its network effect as a consolidator in the financial exchange space. Thanks to its large volume, it offers customers considerable liquidity, which is an extremely attractive feature for this industry. The company's large volume also gives it economies of scale, enabling it to offer competitive pricing without considerably hurting profitability. This not only enables the company to retain customers but also attracts new ones. As its customer count grows, its network effect only grows stronger, which in turn drives further liquidity and cost advantages, resulting in a virtuous cycle. Given that more than half of all interest rate-related futures in the world and nearly all North American interest rate-related futures are traded on the company's exchanges, it is clear that the company has established a dominant network effect in its core business.

While the company is not directly impacted by changes in stock market valuations, it did suffer during the last recession due to depressed market sentiment and customer bankruptcies, dramatically reducing activity on the exchanges. From peak to trough, CME Group's trailing twelve-month earnings per share fell from ~$3.45 in mid-2008 to $2.40 in mid-2009. The biggest long-term risk to the company is the potential for new regulation to disrupt the company's business model, which could break up its exchange and clearing operations or even limit the volatility on the exchanges or its pricing power. However, we do not see any threat developing in the near future, making the business fairly low-risk from a long-term perspective.

Final Thoughts & Recommendation

CME Group benefits from increased volatility. Given the increasing geo-political and macroeconomic uncertainties in the world today, this could bode well for the business. At the same time, the valuation currently stands at a premium. As a result, with a 2.6% expected annualized return over the next half decade, we rate shares as a Sell.

Total Return Breakdown by Year



Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	3,113	3,327	3,595	3,645	4,309	4,868	4,884	4,690	5,019	5,579
Gross Profit	2,528	2,745	3,052	3,081	3,637	3,969	4,027	3,853	4,266	4,750
Gross Margin	81.2%	82.5%	84.9%	84.5%	84.4%	81.5%	82.5%	82.2%	85.0%	85.1%
SG&A Exp.	226	215	144	118	166	174	191	152	137	144
D&A Exp.	233	229	225	209	249	473	464	385	363	353
Operating Profit	1,768	1,989	2,201	2,311	2,608	2,588	2,637	2,645	3,016	3,436
Operating Margin	56.8%	59.8%	61.2%	63.4%	60.5%	53.2%	54.0%	56.4%	60.1%	61.6%
Net Profit	1,127	1,247	1,534	4,063	1,962	2,117	2,105	2,636	2,691	3,226
Net Margin	36.2%	37.5%	42.7%	111.5%	45.5%	43.5%	43.1%	56.2%	53.6%	57.8%
Free Cash Flow	1,151	1,418	1,640	1,669	2,324	2,427	2,518	2,275	2,966	3,377
Income Tax	645	710	754	(1,537)	814	574	616	737	799	927

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets ($B)	72.24	67.36	69.37	75.79	77.48	75.22	124.66	196.78	174.18	129.71
Cash & Equivalents	1,366	1,693	1,869	1,904	1,375	1,551	1,633	2,835	2,720	2,912
Accounts Receivable	341	358	364	360	553	492	461	435	483	536
Goodwill & Int. Ass.	27,382	27,282	27,186	27,091	33,481	33,036	32,839	31,235	30,928	30,721
Total Liabilities	51,318	46,808	49,029	53,379	51,510	49,056	98,308	169,381	147,297	102,968
Accounts Payable	37	29	26	31	116	62	69	49	121	91
Long-Term Debt	2,108	2,229	2,231	2,233	4,401	3,743	3,444	3,445	3,438	3,425
Shareholder’s Equity	20,924	20,552	20,341	22,412	25,919	26,129	26,320	27,399	26,879	26,738
LTD/E Ratio	0.10	0.11	0.11	0.10	0.17	0.14	0.13	0.13	0.13	0.13

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	1.8%	1.8%	2.2%	5.6%	2.6%	2.8%	2.1%	1.6%	1.5%	2.1%
Return on Equity	5.4%	6.0%	7.5%	19.0%	8.1%	8.1%	8.0%	9.8%	9.9%	12.0%
ROIC	4.8%	5.4%	6.8%	17.2%	7.1%	7.0%	7.1%	8.7%	8.8%	10.7%
Shares Out.	337.3	338.4	339.7	340.4	357.8	358.4	359.0	358.6	359.7	360.0
Revenue/Share	9.26	9.85	10.61	10.71	12.54	13.59	13.62	13.07	13.97	15.52
FCF/Share	3.42	4.20	4.84	4.91	6.76	6.78	7.02	6.34	8.26	9.39

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.