CME Group Inc. (CME)

Updated March 25th, 2025 by Samuel Smith

Key Metrics

Current Price:	$263	**5 Year CAGR Estimate:**	9.3%	**Market Cap:**	$95 B
Fair Value Price:	$266	**5 Year Growth Estimate:**	5.7%	**Ex-Dividend Date:**	3/7/25
% Fair Value:	99%	**5 Year Valuation Multiple Estimate:**	0.2%	**Dividend Payment Date:**	3/26/25
Dividend Yield:	3.8%	**5 Year Price Target**	$350	**Years Of Dividend Growth:**	20
Dividend Risk Score:	D	**Retirement Suitability Score:**	N/A	**Rating:**	Hold

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).

On February 12, 2025, CME Group Inc. reported its financial results for the fourth quarter of 2024. The company achieved revenue of $1.5 billion and operating income of $947 million. Net income was $875 million, resulting in diluted earnings per common share of $2.40. On an adjusted basis, net income was $919 million, with diluted earnings per share of $2.52. Average daily volume (ADV) for the quarter was 25.5 million contracts, consistent with the same period in 2023, with non-U.S. ADV increasing by 5% to 7.6 million contracts. Clearing and transaction fees revenue totaled $1.2 billion, and market data revenue was $182 million. Management expressed optimism about future growth prospects, citing strong performance across various asset classes and a commitment to serving global clients amid economic and geopolitical uncertainties.

Growth On A Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	$3.69	$4.53	$11.94	$5.71	$6.85	$6.72	$6.67	$7.97	$9.34	$10.26	***$10.63***	***$14.00***
DPS	$4.90	$5.65	$6.14	$2.80	$5.50	$5.90	$6.85	$8.50	$9.65	$10.40	***$10.08***	***$11.00***
Shares[1]	338.4	339.7	340.4	357.8	358.4	359.0	358.6	359.7	360.0	360.4	***360.4***	***365.0***

Looking ahead we anticipate 5.7% 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 strong clip for the foreseeable future.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	23.3	24.2	19.6	9.7	25.6	24.7	32.8	21.8	23.1	25.0	***24.7***	***25.0***
Avg. Yld.	5.7%	5.2%	2.6%	5.1%	3.1%	3.6%	3.1%	4.9%	4.5%	4.1%	***3.8%***	***3.1%***

The stock currently trades at 24.7 times this year's expected earnings. Given that the company has strong, but not exceptional earnings per share growth potential, we assign a fair value multiple estimate of 25x earnings, making CME slightly undervalued at present.

[1] In millions

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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	133%	125%	51%	49%	80%	88%	103%	107%	103%	101%	***95%***	***79%***

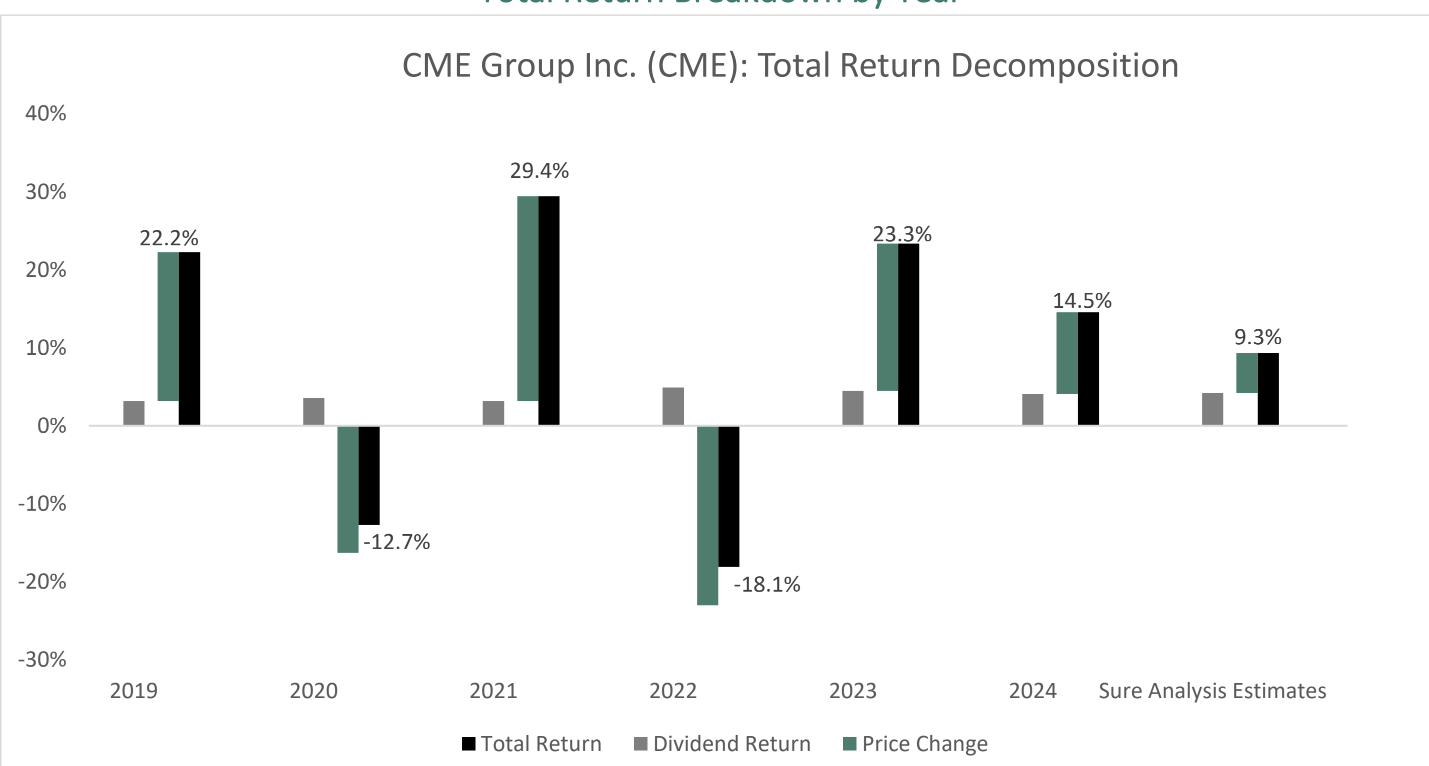
CME Group's biggest competitive advantage is its network effect as a consolidator in the financial exchange space. Thanks to its large volume, it offers customers considerable liquidity, which is an extremely attractive feature for this industry. The company's large volume also gives it economies of 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. Meanwhile, the valuation currently stands at a slight discount. As a result, with a 9.3% expected annualized return over the next half decade, we rate shares as a Hold.

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	3,327	3,595	3,645	4,309	4,868	4,884	4,690	5,019	5,579	6,130
Gross Profit	2,745	3,052	3,081	3,637	3,969	4,027	3,853	4,266	4,750	5,280
Gross Margin	82.5%	84.9%	84.5%	84.4%	81.5%	82.5%	82.2%	85.0%	85.1%	86.1%
SG&A Exp.	215	144	118	166	174	191	152	137	144	133
D&A Exp.	229	225	209	249	473	464	385	363	353	337
Operating Profit	1,989	2,201	2,311	2,608	2,588	2,637	2,645	3,016	3,436	3,932
Operating Margin	59.8%	61.2%	63.4%	60.5%	53.2%	54.0%	56.4%	60.1%	61.6%	64.1%
Net Profit	1,247	1,534	4,063	1,962	2,117	2,105	2,636	2,691	3,226	3,526
Net Margin	37.5%	42.7%	111.5%	45.5%	43.5%	43.1%	56.2%	53.6%	57.8%	57.5%
Free Cash Flow	1,418	1,640	1,669	2,324	2,427	2,518	2,275	2,966	3,377	3,597
Income Tax	710	754	(1,537)	814	574	616	737	799	927	1,016

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets ($B)	67	69	76	77	75	125	197	174	130	137
Cash & Equivalents	1,693	1,869	1,904	1,375	1,551	1,633	2,835	2,720	2,912	2,892
Accounts Receivable	358	364	360	553	492	461	435	483	536	573
Goodwill & Int. Ass.	27,282	27,186	27,091	33,481	33,036	32,839	31,235	30,928	30,721	30,484
Total Liabilities	47	49	53	52	49	98	169	147	103	111
Accounts Payable	29	26	31	116	62	69	49	121	91	80
Long-Term Debt	2,229	2,231	2,233	4,401	3,743	3,444	3,445	3,438	3,425	3,428
Shareholder's Equity	20,552	20,341	22,412	25,919	26,129	26,320	27,399	26,879	26,738	26,487
LTD/E Ratio	0.11	0.11	0.10	0.17	0.14	0.13	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%	2.2%	5.6%	2.6%	2.8%	2.1%	1.6%	1.5%	2.1%	2.6%
Return on Equity	6.0%	7.5%	19.0%	8.1%	8.1%	8.0%	9.8%	9.9%	12.0%	13.2%
ROIC	5.4%	6.8%	17.2%	7.1%	7.0%	7.1%	8.7%	8.8%	10.7%	11.7%
Shares Out.	338.4	339.7	340.4	357.8	358.4	359.0	358.6	359.7	360.0	360.4
Revenue/Share	9.85	10.61	10.71	12.54	13.59	13.62	13.07	13.97	15.52	17.03
FCF/Share	4.20	4.84	4.91	6.76	6.78	7.02	6.34	8.26	9.39	9.99

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