

CME Group Inc

3Q23 First Impression – In-line results

Maintain Rating: NEUTRAL | PO: 210.00 USD | Price: 214.25 USD

Slightly better than expected 3Q23 financial results

CME Group (CME) reported higher than expected adjusted EPS of \$2.25 (consensus = \$2.22) with the beat driven by expenses, taxes and non-op income. Overall, we view the results as slightly better than expected and we note that volumes are off to a strong start in 4Q23 (interest rates, equities, energy all up double-digit q/q).

Cash sorting in the clearinghouse continues

There was a \$14M sequential decrease in earnings from cash collateral, which is attributable to clearing members reallocating capital into securities (namely treasuries) to take advantage of higher yields. Presumably, this trend motivated the recently announced price hike on non-cash collateral, which will take effect in January.

Volumes down modestly q/q but rising again in October

Largely due to the decline in volatility in the quarter (average VIX down 8% q/q) and negative seasonality, volumes were down slightly q/q. Overall futures volumes were down 2% q/q and flat y/y. In addition to the lack of volatility, higher energy prices and fewer catalysts related to the Russia/Ukraine war were a headwind to volumes on both a sequential and y/y basis. However, we forecast stronger volumes in 4Q23.

Maintain Neutral rating; Earnings call at 8:30am ET

CME's premium valuation (23x 24E EPS) keeps us at Neutral, while we believe there is upside potential for volumes in 4Q23/1H24 and we are positive on CME's long-term pricing power. On the call, we are looking for updates around rates market quality, pricing, and the equity index complex (soft volumes + competition from options).

Exhibit 1: CME 3Q23 actuals vs our estimates

EPS beats on expenses and taxes

	3Q22	2Q23	3Q23E	3Q23A	Beat (Miss) %	QoQ	YoY
Adjusted EPS	\$1.98	\$2.30	\$2.21	\$2.25	2%	-2%	14%
Net Revenues	1,228	1,360	1,347	1,338	-1%	-2%	9%
Adjusted Expenses	441	452	457	448	2%	-1%	2%
Futures ADV (Contracts, 000s)	22,436	22,855	-	22,349	-	-2%	0%

Source: Company reports, BofA Global Research

BofA GLOBAL RESEARCH

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	6.69	7.97	9.18	9.98	10.48
EPS Change (YoY)	-0.6%	19.1%	15.2%	8.7%	5.0%
Consensus EPS (Bloomberg)			9.08	9.29	9.63
DPS	6.85	8.50	8.00	8.35	8.55
Valuation (Dec)					
P/E	32.0x	26.9x	23.3x	21.5x	20.4x
GAAP P/E	32.0x	26.9x	23.3x	21.5x	20.4x
Dividend Yield	3.2%	4.0%	3.7%	3.9%	4.0%

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Refer to important disclosures on page 5 to 7. Analyst Certification on page 3. Price Objective Basis/Risk on page 3.

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25 October 2023

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Stock Data

Price	214.25 USD
Price Objective	210.00 USD
Date Established	2-Oct-2023
Investment Opinion	B-2-7
52-Week Range	164.68 USD -221.76 USD
Mrkt Val / Shares Out (mn)	77,076 USD / 359.7
Average Daily Value	291.59 USD
BofA Ticker / Exchange	CME / NAS
Bloomberg / Reuters	CME US / CME.OQ
ROE (2023E)	12.2%
ESGMeter™	High

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Glossary

RPC: Revenue per contract

LT: Long-term

iQprofileSM CME Group Inc

Income Statement Data (Dec)	2021A	2022A	2023E	2024E	2025E
(US\$ Millions)					
Total Net Revenue	4,687	5,019	5,541	5,999	6,241
% change	-4.0%	7.1%	10.4%	8.3%	4.0%
Compensation & Benefit	(784)	(746)	(772)	(803)	(827)
% change	-4.6%	-4.9%	3.5%	4.0%	3.0%
Non-Compensation Expenses	(921)	(1,026)	(1,080)	(1,103)	(1,117)
% change	-6.0%	11.5%	5.2%	2.2%	1.2%
Total Expenses	(1,705)	(1,772)	(1,852)	(1,906)	(1,944)
% change	-5.4%	4.0%	4.5%	3.0%	2.0%
Operating Income	2,982	3,247	3,689	4,093	4,297
% change	-3.3%	8.9%	13.6%	10.9%	5.0%
Reported Net Income	2,401	2,863	3,300	3,589	3,771
% change	-0.4%	19.2%	15.3%	8.8%	5.1%
Adjusted Net Income	2,400	2,863	3,298	3,589	3,771
% change	-0.5%	19.3%	15.2%	8.8%	5.1%

Performance Metrics (Dec)

	2021A	2022A	2023E	2024E	2025E
Operating Margin	63.6%	64.7%	66.6%	68.2%	68.9%
Compensation Expense/Revenue	16.7%	14.9%	13.9%	13.4%	13.3%
Non-Compensation Expense/Revenue	19.6%	20.4%	19.5%	18.4%	17.9%
Dividend Payout Ratio	102.2%	106.5%	87.1%	83.6%	81.5%

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Assets	196,780	174,176	150,789	151,341	152,000
Cash and Investments	2,835	2,720	1,364	1,887	2,516
Long-Term Debt	2,696	3,422	3,424	3,424	3,424
Total Shareholders' Equity	27,399	26,879	27,310	27,862	28,521

Company Sector

Other Financials

Company Description

CME, which was founded in 1898, is a leading derivatives exchange that handles more than 90% of U.S. futures trading. The company owns and operates multiple regulated exchanges, including the CBOT, NYMEX, COMEX, and KCBT. CME has grown both organically and via acquisitions and offers products such as futures and options on futures across all major asset classes (interest rates, equity indexes, energy, FX, metals, agricultural commodities, etc.), market data and clearing services.

Investment Rationale

While we note that CME lacks the secular growth characteristics of other areas of the exchange universe (e.g. fixed income e-trading, index and data), we believe that the low VIX and CME's low valuation (versus history) creates upside risk for the stock. Pricing gains, retail expansion and the reduction of bad volatility could also benefit earnings over the intermediate term.

Quarterly Earnings Estimates

	2022	2023
Q1	2.11A	2.42A
Q2	1.97A	2.30E
Q3	1.98A	2.21E
Q4	1.92A	2.25E

Price objective basis & risk

CME Group Inc (CME)

Our primary valuation metric for US Exchanges is price to long-term earnings (2025E). We focus on long-term EPS because we prefer to normalize for any near-term factors, and it also provides credit for an additional two years of growth. We apply a 20.0x multiple on our 2025E EPS to derive our \$210 PO. Our multiple is based on the conservative assumption that CME trades in line with its peer group despite its lower growth prospects/earnings quality.

Downside risks are (1) depressed volumes, (2) lower earnings quality due to high transactional revenue composition, (3) mature markets and high market share stifling further growth, (4) trading at a premium to higher growth peers and (5) secular transition away from oil/fossil fuels where CME has high share.

Upside risks are (1) improving/elevated interest rate volumes due to quantitative tightening/inflation, (2) defensive qualities which drive stock outperformance in equity market drawdowns (e.g., 1Q22), (3) futures rollouts on additional retail brokerages, and (4) potential for share gains in select markets: base metals after the LME debacle and cash after the DTCC cross-margining proposal is approved (estimated in 1Q23 versus 3Q22 prior target).

Analyst Certification

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Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
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	Ameriprise Financial	AMP	AMP US	Craig Siegenthaler, CFA
	Ares Management Corp	ARES	ARES US	Craig Siegenthaler, CFA
	BlackRock, Inc.	BLK	BLK US	Craig Siegenthaler, CFA
	Blackstone	BX	BX US	Craig Siegenthaler, CFA
	Blue Owl Capital	OWL	OWL US	Craig Siegenthaler, CFA
	Cboe Global Markets	CBOE	CBOE US	Craig Siegenthaler, CFA
	Interactive Brokers	IBKR	IBKR US	Craig Siegenthaler, CFA
	Intercontinental Exchange	ICE	ICE US	Craig Siegenthaler, CFA
	KKR & Co. Inc.	KKR	KKR US	Craig Siegenthaler, CFA
	Raymond James Financial	RJF	RJF US	Mark McLaughlin, CFA
	TPG Inc	TPG	TPG US	Craig Siegenthaler, CFA
	Tradeweb Markets Inc.	TW	TW US	Craig Siegenthaler, CFA
	Victory Capital Holdings, Inc.	VCTR	VCTR US	Craig Siegenthaler, CFA
NEUTRAL				
	Affiliated Managers Group	AMG	AMG US	Craig Siegenthaler, CFA
	Apollo Global Management	APO	APO US	Craig Siegenthaler, CFA
	Brookfield Asset Management	BAM	BAM US	Craig Siegenthaler, CFA
	CME Group Inc	CME	CME US	Craig Siegenthaler, CFA
	Invesco	IVZ	IVZ US	Craig Siegenthaler, CFA
	Janus Henderson Group	JHG	JHG US	Craig Siegenthaler, CFA
	Janus Henderson Group	JUHDY	JHG AU	Craig Siegenthaler, CFA



US - Brokers, Asset Managers, & Exchanges Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	LPL Financial Holdings	LPLA	LPLA US	Craig Siegenthaler, CFA
	Patria	PAX	PAX US	Craig Siegenthaler, CFA
UNDERPERFORM				
	Charles Schwab Corp.	SCHW	SCHW US	Craig Siegenthaler, CFA
	Franklin Resources	BEN	BEN US	Craig Siegenthaler, CFA
	Nasdaq	NDAQ	NDAQ US	Craig Siegenthaler, CFA
	Robinhood Markets	HOOD	HOOD US	Craig Siegenthaler, CFA
	T. Rowe Price	TROW	TROW US	Craig Siegenthaler, CFA
	The Carlyle Group	CG	CG US	Craig Siegenthaler, CFA

IQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

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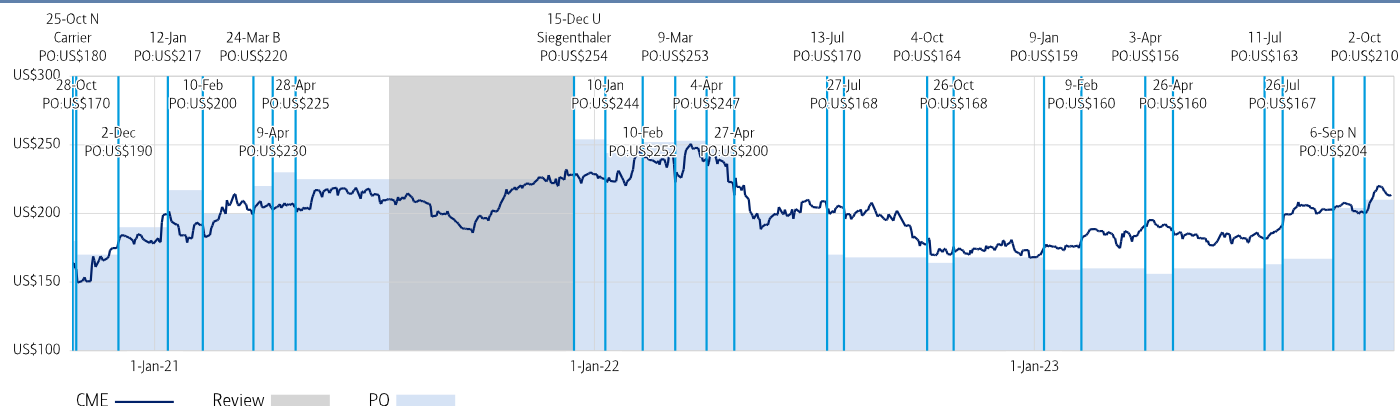
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CME Group Inc (CME) Price Chart



B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Financial Services Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	156	53.24%	Buy	94	60.26%
Hold	79	26.96%	Hold	52	65.82%
Sell	58	19.80%	Sell	32	55.17%

Equity Investment Rating Distribution: Global Group (as of 30 Sep 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1869	53.48%	Buy	1046	55.97%
Hold	828	23.69%	Hold	461	55.68%
Sell	798	22.83%	Sell	370	46.37%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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