



Chicago Mercantile Exchange (NSADAQ: CME) OCTOBER 27, 2022

Target Price: \$227 Market Cap (\$B): \$61.8 B P/E Ratio (TTM): 21.36 Current Price: \$171.93 Dividend Yield: 2.16% EV/EBITDA: 19.99 Stop loss: \$138.00 Unlevered Beta: 0.43 EBITDA Margin: **83.70%** 52 Week High/Low: \$166.58/\$256.94 ROE: **10.4%** Gross Margin: **82.15%**

Company Overview

CME Group provides market participants worldwide the ability to efficiently manage risk within and across multiple asset classes, by trading futures, options, cash and over-the-counter (OTC) products. CME Group provides primary price discovery and referential pricing information through its market data in a variety of formats, including real time, historical and derived data for customers in both listed and cash products. CME Group also offers industry-leading research and analytics tools to provide customers with market education resources.

Outlook

The industry competition has been increasing. We expect competition to continue to intensify and become more global, especially in light of changes in the financial services industry driven by regulatory reforms. CME believe that they compete favorably due to their deep, liquid markets; diverse and complementary product offerings; frequency and quality of new product development; and efficient, secure settlement, clearing and support services, distinguish us from others in the industry. CME must continue to expand globally; develop and offer new and innovative products; enhance our technology infrastructure, including its reliability, functionality and security; maintain liquidity and low transaction costs; continue to strengthen our risk management capabilities and solutions; and implement customer protections

designed to ensure the integrity of our market and the confidence of our customers.

Investment Thesis

- Very strong pricing power** as clients can only trade those contracts at CME
- High barriers of entries** as CME trades over 90% of futures and options
- Large network effect** as buyers want to trade where there are sellers and vice versa.
- High switching costs** as clients need to set up a new guarantee fund that costs billions.
- High marginal contribution** as every new trade contributes 100% to profits (no COGS).
- Low CapEx** as electronic trading systems are very efficient finding buyers and sellers (low searching costs)

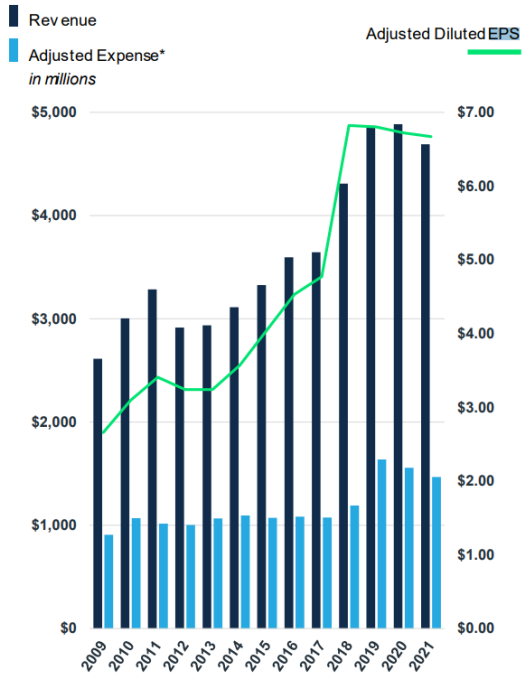
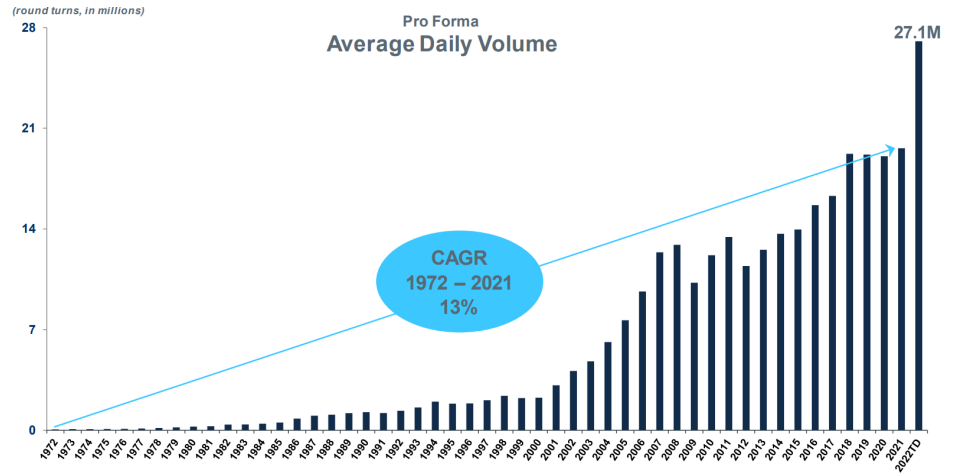
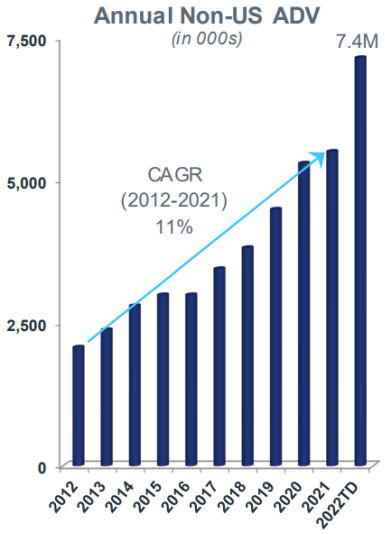
Investment Risk

- A recession similar to the 2008 crisis (many defaults)
- If the monopoly gets taken away

Financial Performance

Chicago Mercantile Exchange has enabling it to dominate the derivatives market world. CME has experienced a large growth in the average daily volume throughout the last 10 years. The CAGR of non US ADV is 11% and 13% including the US. The Adjusted Diluted EPS has grown from \$3 to \$7 from 2009 to 2021.

Breakdown	TTM	12/31/2021	12/31/2020	12/31/2019	12/31/2018
> Total Revenue	4,841,000	4,689,700	4,883,600	4,868,000	4,309,400
Cost of Revenue	770,800	837,000	856,500	898,700	672,200
Gross Profit	4,070,200	3,852,700	4,027,100	3,969,300	3,637,200
> Operating Expense	1,216,000	1,207,500	1,389,700	1,381,500	1,029,600
Operating Income	2,854,200	2,645,200	2,637,400	2,587,800	2,607,600
> Net Non Operating Interest Inc...	-166,100	-166,900	-166,200	-178,000	-157,700
> Other Income Expense	990,100	895,300	250,900	279,800	327,900
Pretax Income	3,678,200	3,373,600	2,722,100	2,689,600	2,777,800
Tax Provision	753,200	736,700	615,700	573,800	814,100
> Net Income Common Stockhold...	2,888,500	2,617,100	2,105,200	2,116,500	1,962,200



Valuation Assumptions & Key Financials

We recommend a BUY rate for FB based on a target price of \$224 per share. This target price reflects a 30% margin of safety based on its price of \$172 on October 27, 2022. The WACC is 6.2%.

		Bear	Base	Bull	bull
Inputs	Volume growth	-4%	4%	11%	11%
	Fee growth	0.50%	0.50%	1.00%	1.0%
	Comp growth	-1.0%	0.0%	3.0%	3.0%
Outputs					
	Price per share	\$ 137.93	\$ 215.85	\$ 327.64	\$ 327.64
	Margin of Safety	-20%	26%	91%	91%

ESG Considerations

In the case of Chicago Mercantile Exchange, its overall S&P DJI ESG Score was 32.

ESG Risk Rating COMPREHENSIVE ?

17.5 Low Risk



Ranking

Industry Group (1st = lowest risk)

Diversified Financials **116** out of 911

Universe

Global Universe **2443** out of 14912