

CME GROUP INC.
Form 10-Q
August 01, 2018
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

- OR -

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number 001-31553

CME GROUP INC.

(Exact name of registrant as specified in its charter)

Delaware 36-4459170

(State or other jurisdiction of incorporation or organization) (I.R.S. Employer Identification No.)

20 South Wacker Drive, Chicago, Illinois 60606
(Address of principal executive offices) (Zip Code)

(312) 930-1000
(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Edgar Filing: CME GROUP INC. - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares outstanding of each of the registrant's classes of common stock as of July 11, 2018 was as follows: 340,577,215 shares of Class A common stock, \$0.01 par value; 625 shares of Class B-1 common stock, \$0.01 par value; 813 shares of Class B-2 common stock, \$0.01 par value; 1,287 shares of Class B-3 common stock, \$0.01 par value; and 413 shares of Class B-4 common stock, \$0.01 par value.

1

Table of Contents

CME GROUP INC.
FORM 10-Q
INDEX

	Page
<u>PART I. FINANCIAL INFORMATION</u>	<u>3</u>
Item 1. <u>Financial Statements</u>	<u>5</u>
<u>Consolidated Balance Sheets at June 30, 2018 and December 31, 2017</u>	<u>5</u>
<u>Consolidated Statements of Income for the Quarters and Six Months Ended June 30, 2018 and 2017</u>	<u>6</u>
<u>Consolidated Statements of Comprehensive Income for the Quarters and Six Months Ended June 30, 2018 and 2017</u>	<u>7</u>
<u>Consolidated Statements of Equity for the Six Months Ended June 30, 2018 and 2017</u>	<u>8</u>
<u>Consolidated Statements of Cash Flows for the Six Months Ended June 30, 2018 and 2017</u>	<u>10</u>
<u>Notes to Unaudited Consolidated Financial Statements</u>	<u>12</u>
Item 2. <u>Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>22</u>
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>30</u>
Item 4. <u>Controls and Procedures</u>	<u>30</u>
<u>PART II. OTHER INFORMATION</u>	<u>30</u>
Item 1. <u>Legal Proceedings</u>	<u>30</u>
Item 1A. <u>Risk Factors</u>	<u>30</u>
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>31</u>
Item 4. <u>Mine Safety Disclosures</u>	<u>31</u>
Item 6. <u>Exhibits</u>	<u>32</u>
<u>SIGNATURES</u>	<u>33</u>

Table of Contents

PART I. FINANCIAL INFORMATION

Certain Terms

Unless otherwise indicated, references to CME Group Inc. (CME Group or the company) products include references to products listed on one of its regulated exchanges: Chicago Mercantile Exchange Inc. (CME), Board of Trade of the City of Chicago, Inc. (CBOT), New York Mercantile Exchange, Inc. (NYMEX) and Commodity Exchange, Inc. (COMEX). Products listed on these exchanges are subject to the rules and regulations of the particular exchange and the applicable rulebook should be consulted. Unless otherwise indicated, references to NYMEX include its subsidiary, COMEX.

All references to “options” or “options contracts” in the text of this document refer to options on futures contracts. Further information about CME Group and its products can be found at <http://www.cmegroup.com>. Information made available on our website does not constitute a part of this Quarterly Report on Form 10-Q.

Information about Contract Volume and Average Rate per Contract

All amounts regarding contract volume and average rate per contract exclude our interest rate swaps and credit default swaps (CDS) contracts. CME exited the CDS clearing business in March 2018.

Trademark Information

CME Group, the Globe logo, CME, Chicago Mercantile Exchange, Globex and E-mini are trademarks of Chicago Mercantile Exchange Inc. CBOT, Chicago Board of Trade, KCBT and Kansas City Board of Trade are trademarks of Board of Trade of the City of Chicago, Inc. NYMEX, New York Mercantile Exchange and ClearPort are trademarks of New York Mercantile Exchange, Inc. COMEX is a trademark of Commodity Exchange, Inc. Dow Jones, Dow Jones Industrial Average, S&P 500 and S&P are service and/or trademarks of Dow Jones Trademark Holdings LLC, Standard & Poor's Financial Services LLC and S&P/Dow Jones Indices LLC, as the case may be, and have been licensed for use by Chicago Mercantile Exchange Inc. All other trademarks are the property of their respective owners.

Forward-Looking Statements

From time to time, in this Quarterly Report on Form 10-Q as well as in other written reports and verbal statements, we discuss our expectations regarding future performance. These forward-looking statements are identified by their use of terms and phrases such as “believe,” “anticipate,” “could,” “estimate,” “intend,” “may,” “plan,” “expect” and similar expressions, including references to assumptions. These forward-looking statements are based on currently available competitive, financial and economic data, current expectations, estimates, forecasts and projections about the industries in which we operate and management's beliefs and assumptions. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what is expressed or implied in any forward-looking statements. We want to caution you not to place undue reliance on any forward-looking statements. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise. Among the factors that might affect our performance are:

- increasing competition by foreign and domestic entities, including increased competition from new entrants into our markets and consolidation of existing entities;
- our ability to keep pace with rapid technological developments, including our ability to complete the development, implementation and maintenance of the enhanced functionality required by our customers while maintaining reliability and ensuring that such technology is not vulnerable to security risks;
- our ability to continue introducing competitive new products and services on a timely, cost-effective basis, including through our electronic trading capabilities, and our ability to maintain the competitiveness of our existing products and services, including our ability to provide effective services to the swaps market;
- our ability to adjust our fixed costs and expenses if our revenues decline;
- our ability to maintain existing customers, develop strategic relationships and attract new customers;
- our ability to retain key employees;
- our ability to expand and offer our products outside the United States;
- changes in regulations, including the impact of any changes in laws or government policy with respect to our industry, such as any changes to regulations and policies that require increased financial and operational resources from us or

our customers;

• the costs associated with protecting our intellectual property rights and our ability to operate our business without violating the intellectual property rights of others;

3

Table of Contents

• decreases in revenue from our market data as a result of decreased demand;
• changes in our rate per contract due to shifts in the mix of the products traded, the trading venue and the mix of customers (whether the customer receives member or non-member fees or participates in one of our various incentive programs) and the impact of our tiered pricing structure;
• the ability of our financial safeguards package to adequately protect us from the credit risks of clearing members;
• the ability of our compliance and risk management methods to effectively monitor and manage our risks, including our ability to prevent errors and misconduct and protect our infrastructure against security breaches and misappropriation of our intellectual property assets;
• changes in price levels and volatility in the derivatives markets and in underlying equity, foreign exchange, interest rate and commodities markets;
• economic, political and market conditions, including the volatility of the capital and credit markets and the impact of economic conditions on the trading activity of our current and potential customers;
• our ability to accommodate increases in contract volume and order transaction traffic and to implement enhancements without failure or degradation of the performance of our trading and clearing systems;
• our ability to execute our growth strategy and maintain our growth effectively;
• our ability to manage the risks and control the costs associated with our strategy for acquisitions, investments and alliances;
• our ability to continue to generate funds and/or manage our indebtedness to allow us to continue to invest in our business;
• industry and customer consolidation;
• decreases in trading and clearing activity;
• the imposition of a transaction tax or user fee on futures and options on futures transactions and/or repeal of the 60/40 tax treatment of such transactions;
• failure to maintain our brand's reputation;
• the unfavorable resolution of material legal proceedings; and
• the uncertainties of the ultimate impact of the Tax Cuts and Jobs Act (2017 Tax Act).

For a detailed discussion of these and other factors that might affect our performance, see Item 1A. of our Annual Report on Form 10-K, filed with the Securities and Exchange Commission on February 28, 2018 and Item 1A. of this Quarterly Report on Form 10-Q.

Table of Contents

ITEM 1. FINANCIAL STATEMENTS

CME GROUP INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in millions, except par value data; shares in thousands)

	June 30, 2018 (unaudited)	December 31, 2017
Assets		
Current Assets:		
Cash and cash equivalents	\$ 1,098.9	\$ 1,903.6
Marketable securities	80.9	90.1
Accounts receivable, net of allowance of \$3.0 and \$2.2	433.9	359.7
Other current assets (includes \$1,635.5 and \$0 in restricted cash)	1,801.6	367.8
Performance bonds and guaranty fund contributions	36,885.2	44,185.3
Total current assets	40,300.5	46,906.5
Property, net of accumulated depreciation and amortization of \$726.9 and \$676.6	380.0	399.7
Intangible assets—trading products	17,175.3	17,175.3
Intangible assets—other, net	2,299.0	2,346.3
Goodwill	7,569.0	7,569.0
Other assets (includes \$1.4 and \$2.4 in restricted cash)	1,475.5	1,394.4
Total Assets	\$ 69,199.3	\$ 75,791.2
Liabilities and Equity		
Current Liabilities:		
Accounts payable	\$ 27.8	\$ 31.3
Other current liabilities	266.6	1,456.3
Performance bonds and guaranty fund contributions	36,885.2	44,185.3
Total current liabilities	37,179.6	45,672.9
Long-term debt	3,419.0	2,233.1
Deferred income tax liabilities, net	4,863.1	4,857.7
Other liabilities	614.0	615.7
Total Liabilities	46,075.7	53,379.4
Shareholders' Equity:		
Preferred stock, \$0.01 par value, 10,000 shares authorized at June 30, 2018 and December 31, 2017; none issued	—	—
Class A common stock, \$0.01 par value, 1,000,000 shares authorized at June 30, 2018 and December 31, 2017; 339,520 and 339,235 shares issued and outstanding as of June 30, 2018 and December 31, 2017, respectively	3.4	3.4
Class B common stock, \$0.01 par value, 3 shares authorized, issued and outstanding as of June 30, 2018 and December 31, 2017	—	—
Additional paid-in capital	17,928.3	17,896.9
Retained earnings	5,173.3	4,497.2
Accumulated other comprehensive income (loss)	18.6	