CME Group 2Q 2020 Earnings Introductory Script – July 29, 2020

John Peschier

Good morning and thank you for joining us. I am going to start with the safe harbor language. Then I will turn it over to Terry, Julie Winkler and John for brief remarks, followed by questions. Other members of our management team will also participate in the Q&A.

Statements made on this call – and in the other reference documents on our website – that are not historical facts, are forward-looking statements. These statements are not guarantees of future performance. They 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 statements. More detailed information about factors that may affect our performance can be found in our filings with the SEC, which are on our website.

Also, on the last page of the earnings release, you will find a reconciliation between GAAP and non-GAAP measures.

With that, I would like to turn the call over to Terry.

Terry

- **Thank you all for joining us today. My comments today will be brief, so we can spend the majority of our time directly addressing your questions. We released our executive commentary this morning which provided extensive details on the second quarter. John, Sean, Derek, and Julie Winkler have joined me today.**

- **In Q2, we averaged 17.6 million contracts per day, down from 21 million contracts per day a year ago and down from our strong start to the year in Q1.**

- **The global exchange traded market has been challenged in many different product areas since the beginning of the pandemic, impacting us and many others in the trading industry. Clearly, the front-end of the US rates curve has become impacted from a trading perspective. Also, with the recovery of the price of Oil back to the 40-dollar range, the global Crude Oil market has stabilized with a fairly flat forward curve, leading to a reduction in volatility back to more normalized levels as the market balances supply and demand. While in the near term that reduces the need for some participants to manage risk with us and others, the competitive dynamic of trading volumes across different markets has not changed. However, with global Crude Oil demand**

still depressed due to Covid 19, which we believe is a temporary situation, we expect to see market conditions improve as global oil demand returns.

- **We are very fortunate to have a highly diversified business. We are looking forward to the integration of BrokerTec coming on to Globex by year-end. We remain committed to achieving capital and operational efficiencies for our clients. Through all of this, I assure you we remain very disciplined as it relates to expenses.**

- **I'd like to turn the call over to Julie Winkler to provide some context on our sales outreach, what we are hearing from our customers, and she will touch briefly upon our data business.**

Julie

- **Thank you, Terry. Despite challenging circumstances, we are continuing to see positive momentum in our global client engagement. Similar to last quarter, many of our clients continue to work from home and our sales organization has excelled at their virtual outreach. During Q2, client engagement by our sales organization was up 66% versus the same period last year and YTD, sales activity is up 81%. We are actively engaging with**

clients via virtual meetings, webinars, online events, email communication, and chat, to support the execution of our sales and go-to-market strategy. Clients continue to express their appreciation for how highly responsive we have been through the peak of the crisis and our continued focus on delivering value-added solutions across product lines. Clients in some areas are beginning to return to the office which means we will take appropriate steps to adjust our coverage model where safe and appropriate.

- **In Q2, we also saw an acceleration of our cross-introduction & cross-sell efforts to capitalize on the NEX acquisition. May represented a record high month with more than 300 cross-introductions across our sales organization, which is more than the entire first quarter combined. A total of 500 cross-introductions were made throughout Q2. Additionally, we reinvigorated campaign-selling to help bring key products and services to market. We are seeing great success with those campaigns including the launch of our new 3-yr treasury product which had more than 40 clients participating on Day 1 of trading.**

- **Our active trader/retail segment performance was strong in Q2 and YTD ADV is up over 70% driven by an overall increase in retail trading resulting from the lockdowns. CME was well-positioned prior to these events and its**

product mix, particularly the E-micros, allowed it to take advantage of strong macro factors.

- **Lastly, our market data business had a strong quarter. Through 1H 2020, consolidated revenue was up 3%. CME Market Data professional subscribers count was solid due to increased subscriptions as traders were migrating to WFH environments. We continue to see success with our data services strategy which confirms the value of our data to our global customer base.**

- **I will now turn things over to John.**

John

- **Thanks Julie.**
- **In the first half of the year, in addition to navigating the challenging environment, we have been very active with the ongoing NEX integration. We remain on track to migrate from the legacy NEX trading systems to our Globex technology. We recently announced to our clients the cutover dates for BrokerTec. BrokerTec EU clients will begin trading on November 16th and BrokerTec Americas trading will commence on December 7th.**
- **With our progress on the integration, the remote working environment and our overall strong expense discipline, we finished the second quarter with adjusted operating expenses, excluding license fees, of $380 million. We are extremely focused on actively managing our costs. Based on our outlook for expenses for the rest of the year, our guidance for adjusted operating expenses, excluding license fees, for 2020 is being reduced from a range of $1.64 to $1.65 billion to approximately $1.595 billion. This level of spending reflects the reality of the current operating environment and we would expect a higher level of spending next year assuming the conditions improve from here.**
- **With that short summary, we'd like to open the call for your questions. Based on the number of analysts covering us, please limit yourself to one question, and then feel free to jump back into the queue. Thank you.**

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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 at substantially similar trading levels, develop strategic relationships and attract new customers; our ability to expand and globally offer our products and services; changes in regulations, including the impact of any changes in laws or government policy with respect to our products or services or 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; decreases in revenue from our market data as a result of decreased demand or changes to regulations in various jurisdictions; 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 credit and liquidity risk management practices to adequately protect us from the credit risks of clearing members and other counterparties, and to satisfy the margin and liquidity requirements associated with the BrokerTec matched principal business; 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; our dependence on third-party providers and exposure to risk through third-parties, including risks related to the performance, reliability and security of technology used by our third-party providers; volatility in commodity, equity and fixed income prices, and price volatility of financial benchmarks and instruments such as interest rates, credit spreads, equity indices, fixed income instruments and foreign exchange rates; economic, social, 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; the impact of the (COVID-19) pandemic and response by governments and other third parties; 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, control the costs and achieve the synergies associated with our strategy for acquisitions, investments and alliances, including those associated with the acquisition of NEX; 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; our ability to maintain our brand and reputation; and the unfavorable resolution of material legal proceedings. For a detailed discussion of these and other factors that might affect our performance, see our filings with the Securities and Exchange Commission, including our most recent periodic reports filed on Form 10-K and Form 10-Q.