

# **CME Group 4Q 2014 Earnings Conference Call**

February 5, 2014

# Forward Looking Statements

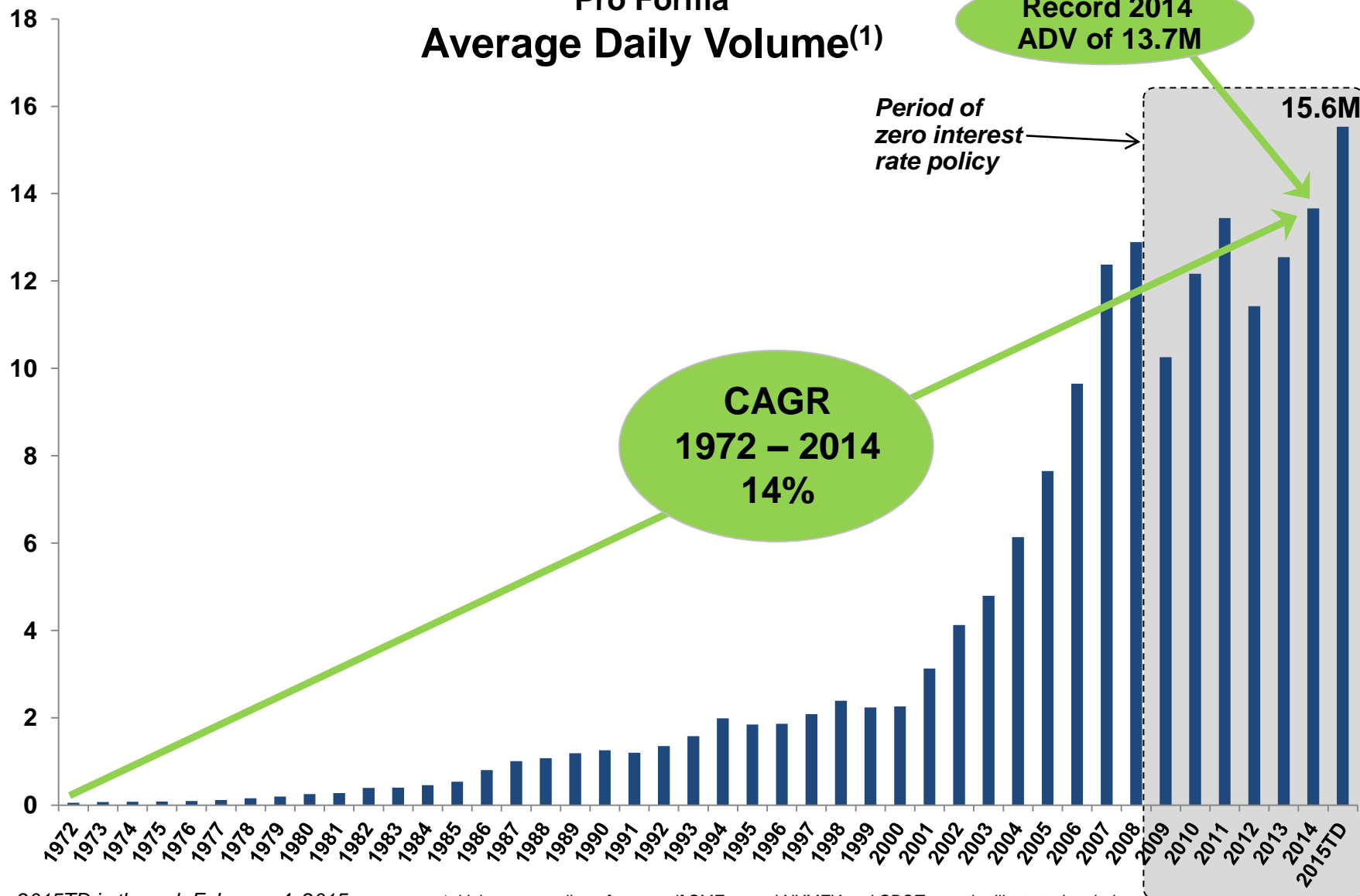
*Statements in this presentation that are not historical facts are forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. Therefore, actual outcomes and results may differ materially from what 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 expand and offer our products outside the United States; changes in domestic and non-U.S. regulations, including the impact of any changes in domestic and foreign 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; 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; the unfavorable resolution of material legal proceedings; and the seasonality of the futures business. 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.*

*NOTE: Unless otherwise noted, all references to CME Group volume, open interest and rate per contract information in the text of this document is based on pro forma results assuming the merger with CBOT Holdings and the acquisition of NYMEX Holdings were completed as of the beginning of the period presented. All data exclude CME Group's non-traditional TRAKRS<sup>SM</sup> products, for which CME Group received significantly lower clearing fees of less than one cent per contract on average. Unless otherwise noted, all year, quarter and month to date volume is through 12/31/2014.*

# Long-Term Growth in a Variety of Environments

(round turns, in millions)

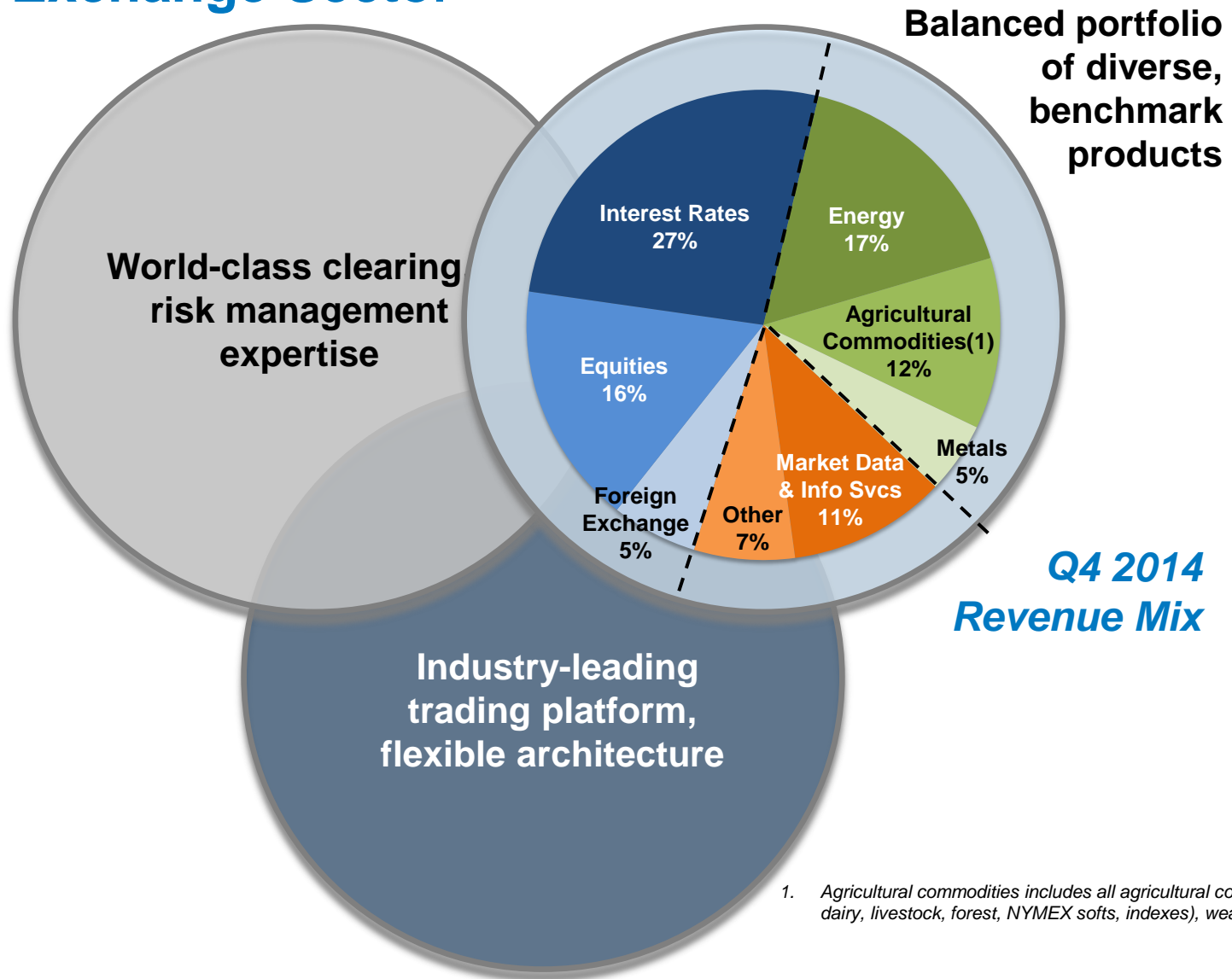
## Pro Forma Average Daily Volume<sup>(1)</sup>



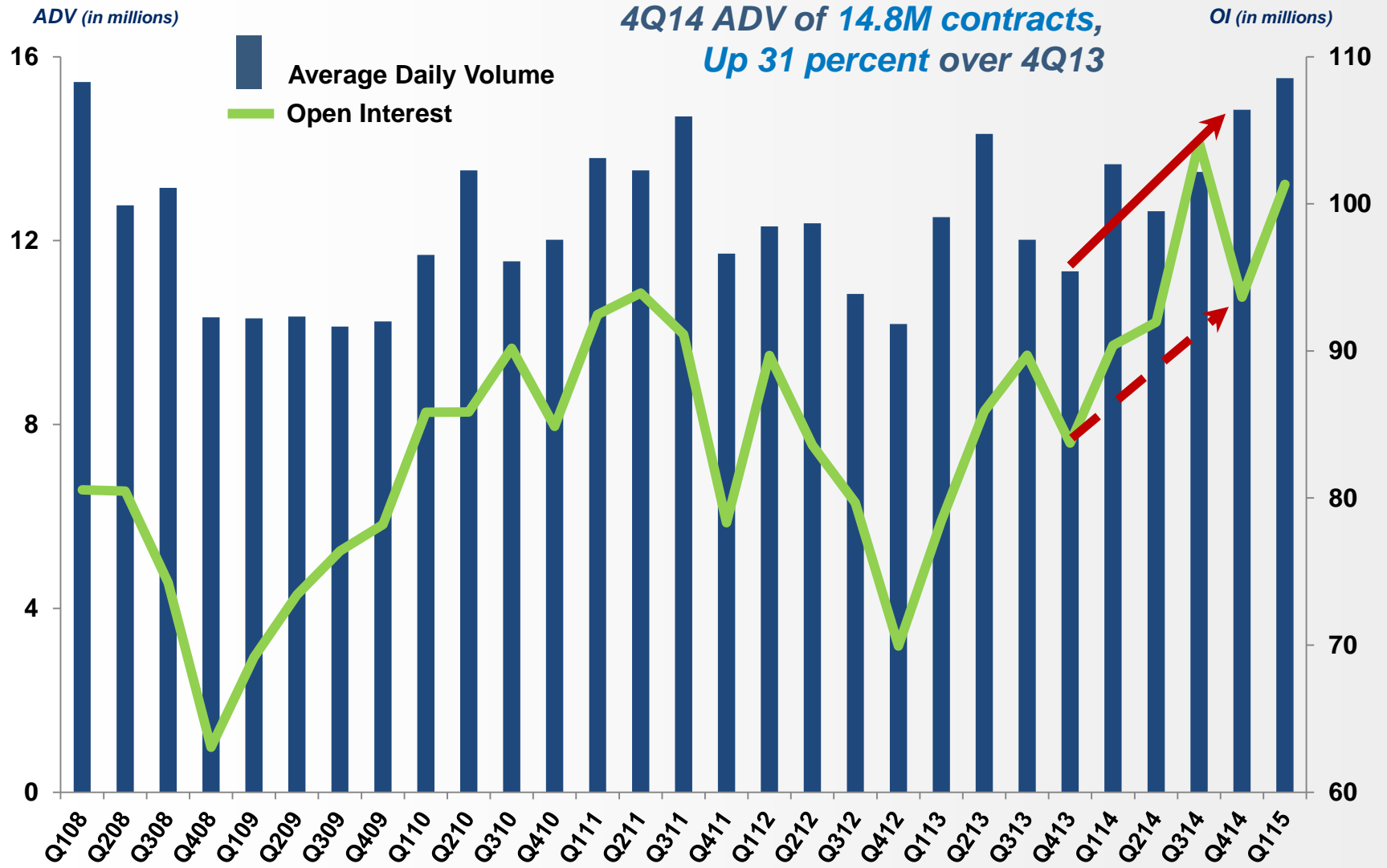
2015TD is through February 4, 2015

1. Volumes are all pro forma as if CME owned NYMEX and CBOT over the illustrated period.

# Most Attractive, Valuable and Diverse Franchise in the Exchange Sector

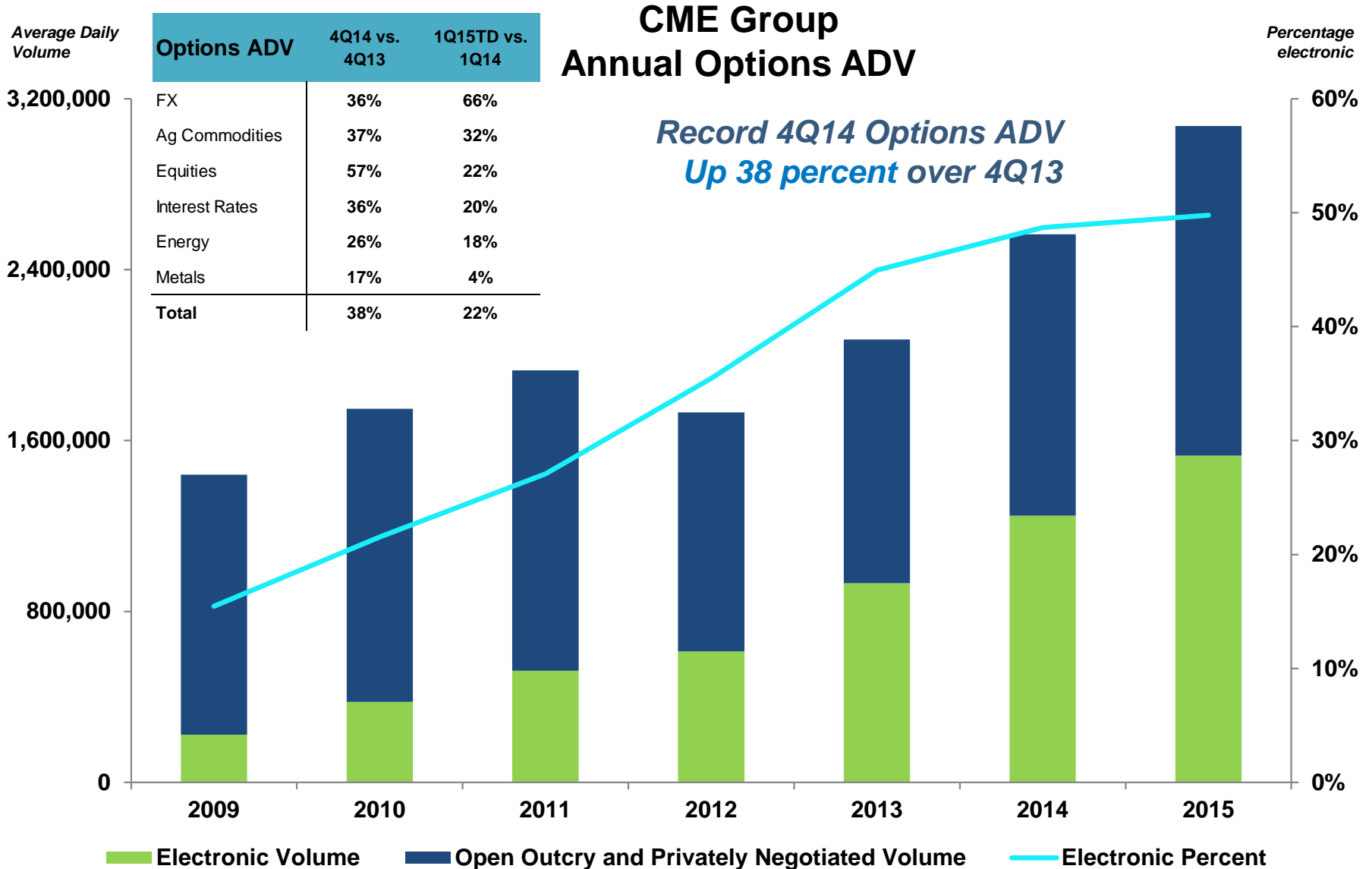


# Solid 4Q 2014 Trends To Finish Off Record Year



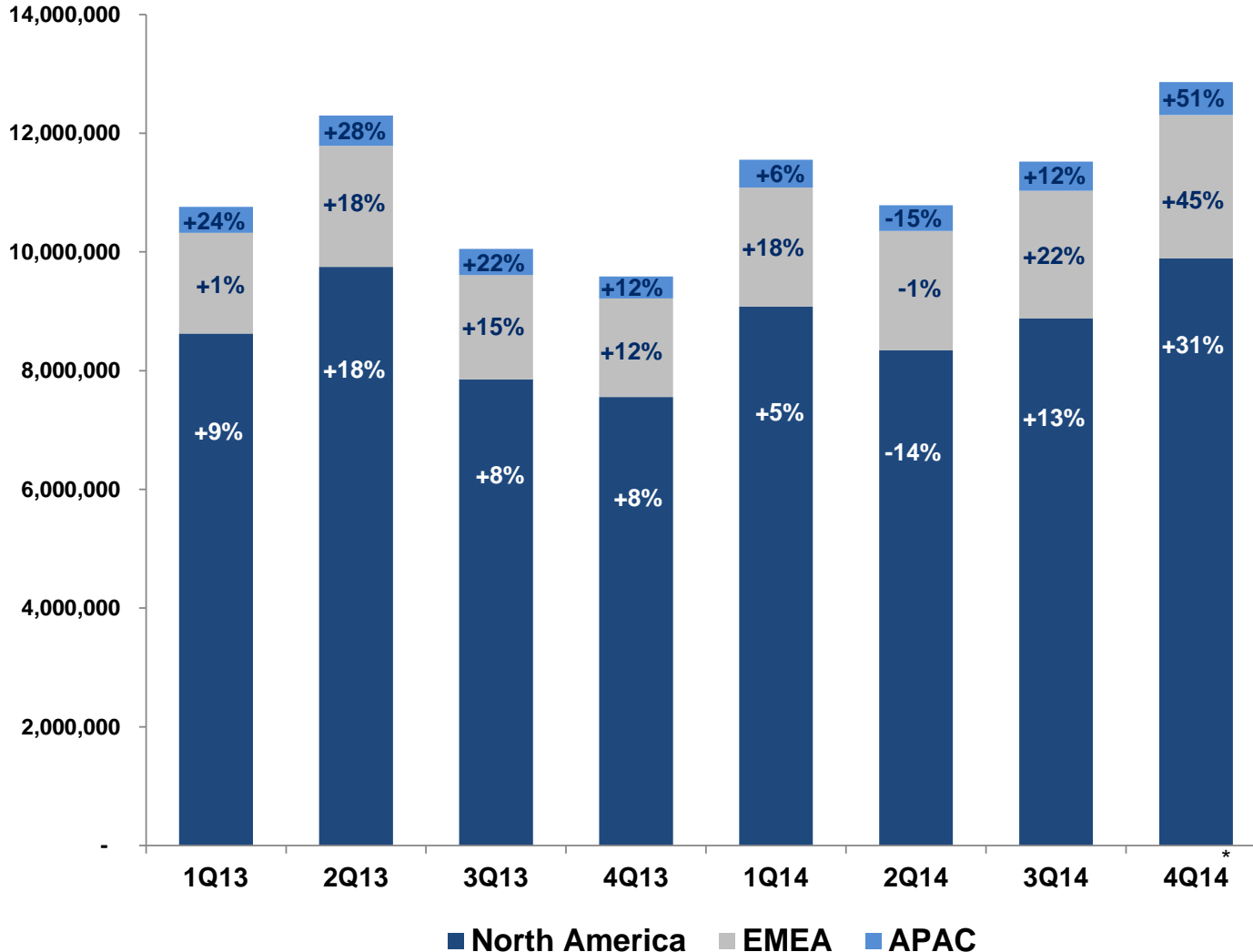
1Q15 to date through February 4, 2015 / 4Q14 growth rates versus 4Q13

# Electronic Options Growth Leads to Deeper, More Diverse Markets



# Electronic Volume Growth from US, Europe & Asia

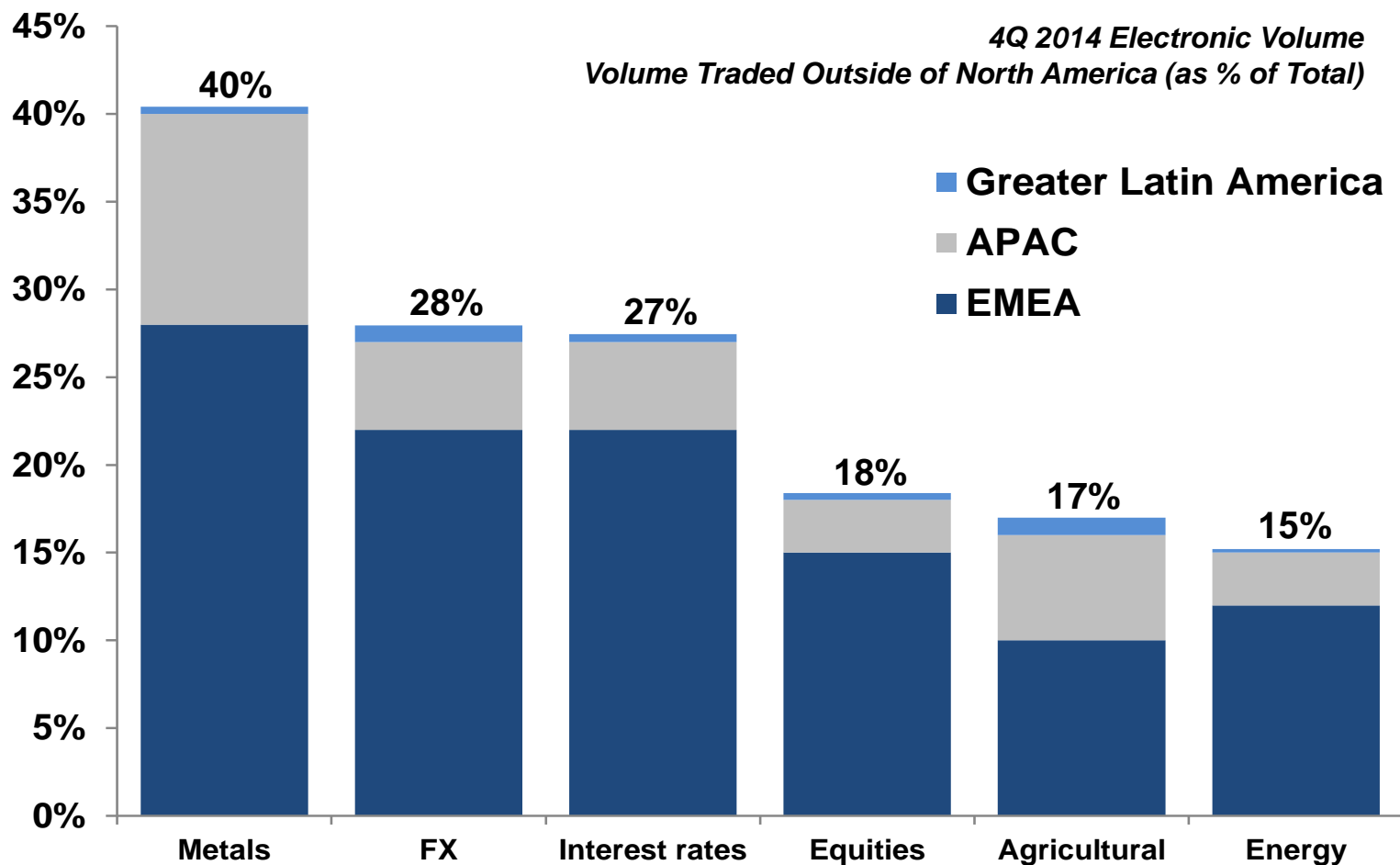
Electronic ADV



- Since 2010, customer facing headcount doubled in Europe, and increased in Asia by 50 percent

# Globally Relevant Products

*Focused strategy execution - but early stages of the game*



- Percentage of electronic volume outside of United States reached **24 percent** in 4Q14



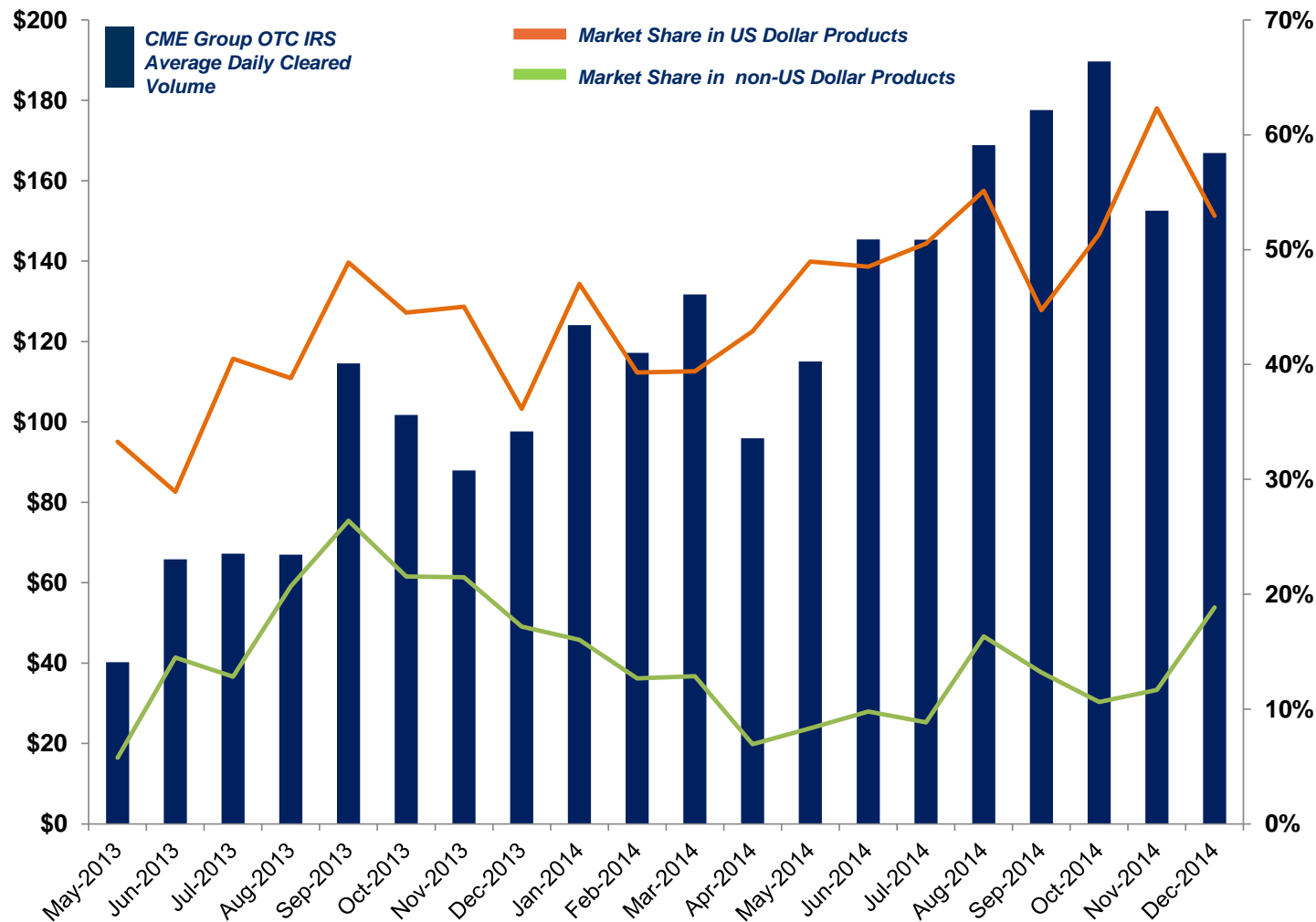
# CME Group Interest Rate Swaps

## Average Daily Cleared Volume – Growing Share

Average Daily Cleared Volume  
(\$ Billions)

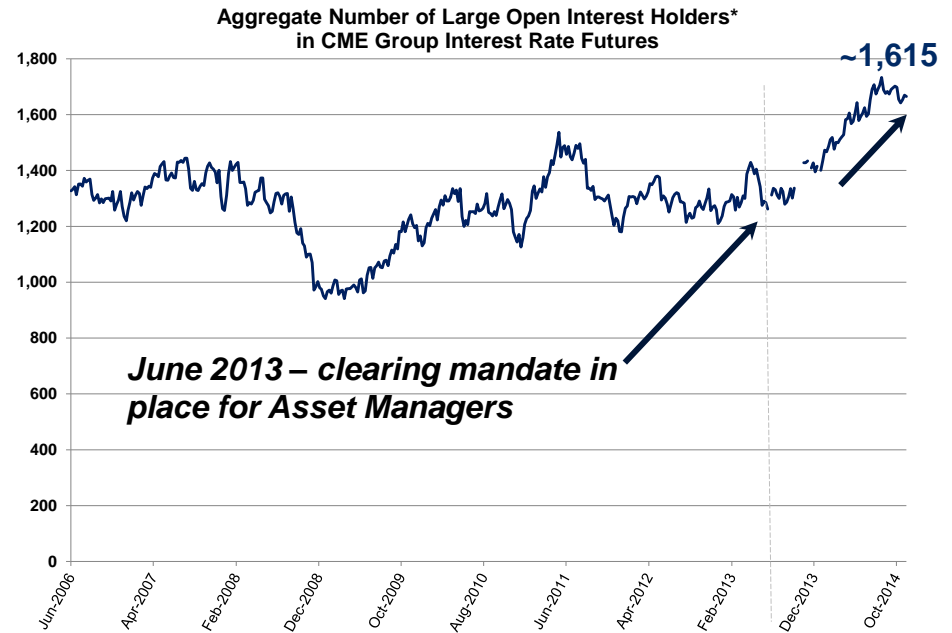
### CME Cleared Interest Rate Swaps

CME Market Share

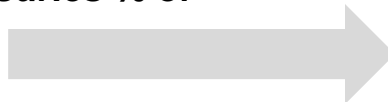


# Potential Signs of OTC Clients Using Futures

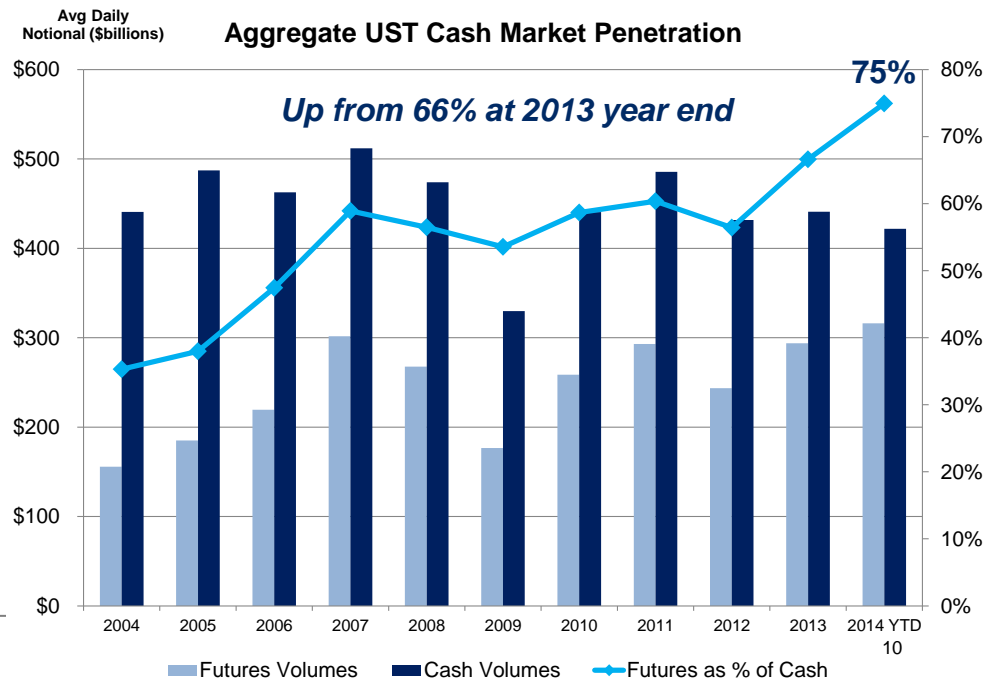
- Approximately 200 firm increase during 2014 spread over the entire rates complex, with about half of this increase in Eurodollars, 2-Year Treasuries and Fed Funds contracts



## CME Group Treasuries % of US Cash Market (Fed Reserve data)



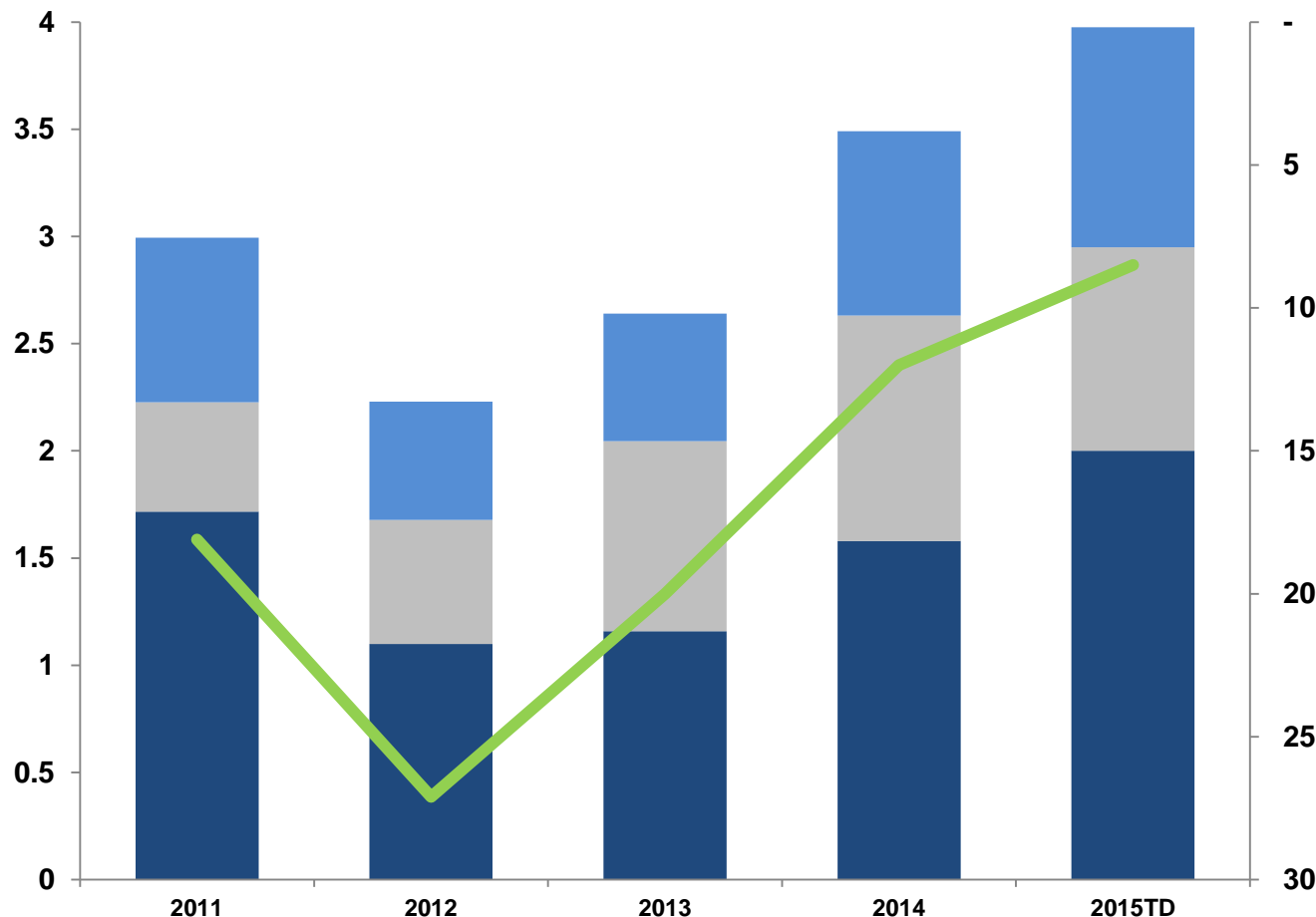
- Treasury Cash Market Penetration was at **79 percent** at the end of November 2014 on a 3-month rolling basis, **near all-time highs** and up from 59 percent at the same point in November-2013



# Estimates for Next Fed Funds Rate Closing In and ADV on Short-End of the Curve Is In Step

CME Group Eurodollar ADV by category  
(in millions)

Annual average anticipated timeframe  
for next Fed Funds Rate move\*  
(# of months from current month)

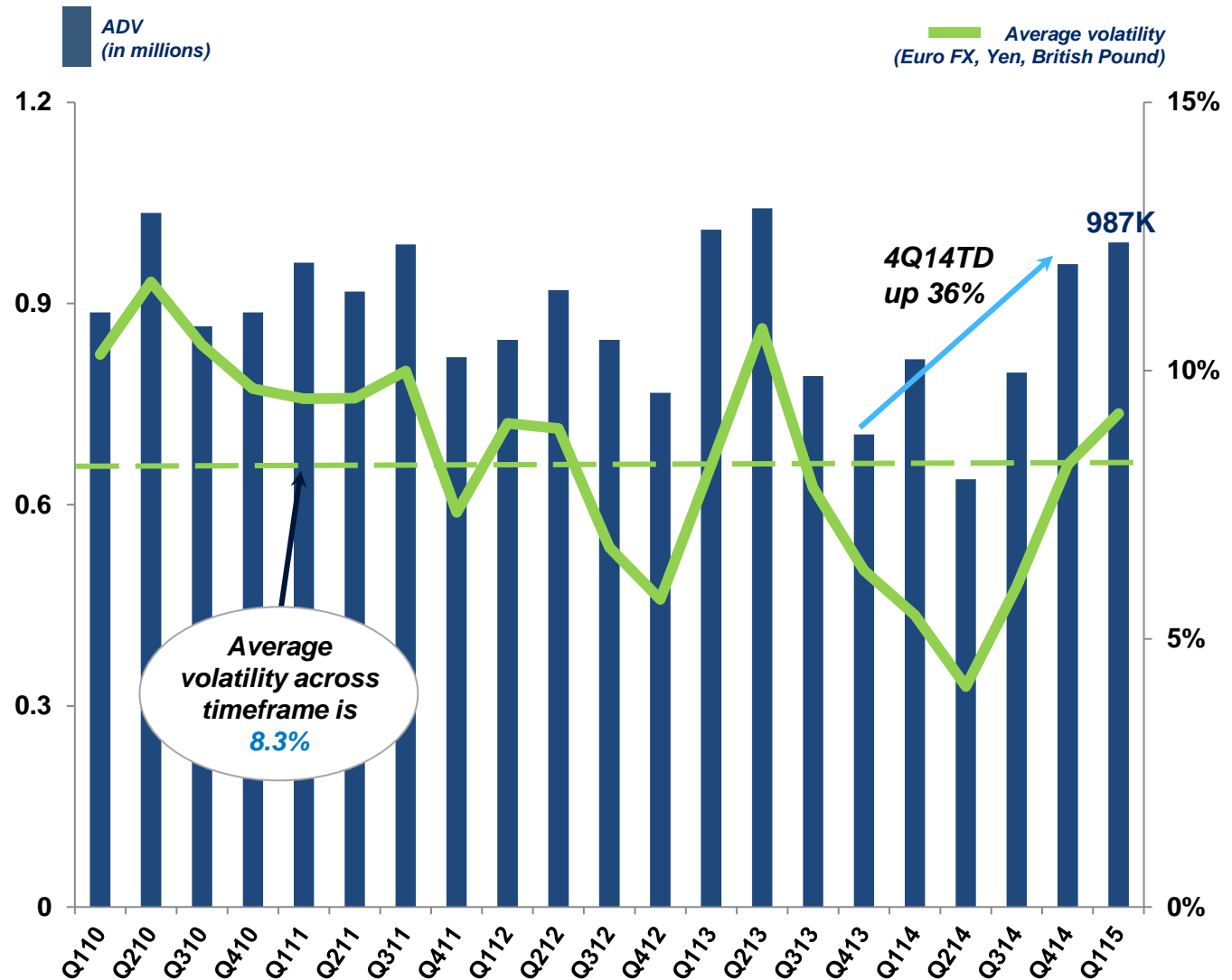


- Fed Funds Futures contract illustrating the following probabilities for the next Fed Funds rate move (as of 2/5/2015):
  - Dec 2015 – 74%
  - Oct 2015 – 65%
  - Sept 2015 - 47%

- ED options
- Back 32 ED futures
- Front 8 ED futures
- Anticipated Timeframe

# CME Group FX Franchise Rebounding

Volatility jumped from 7.8% on average in Oct-14 to 8.9% in Dec-14 to 9.2% in Jan-15

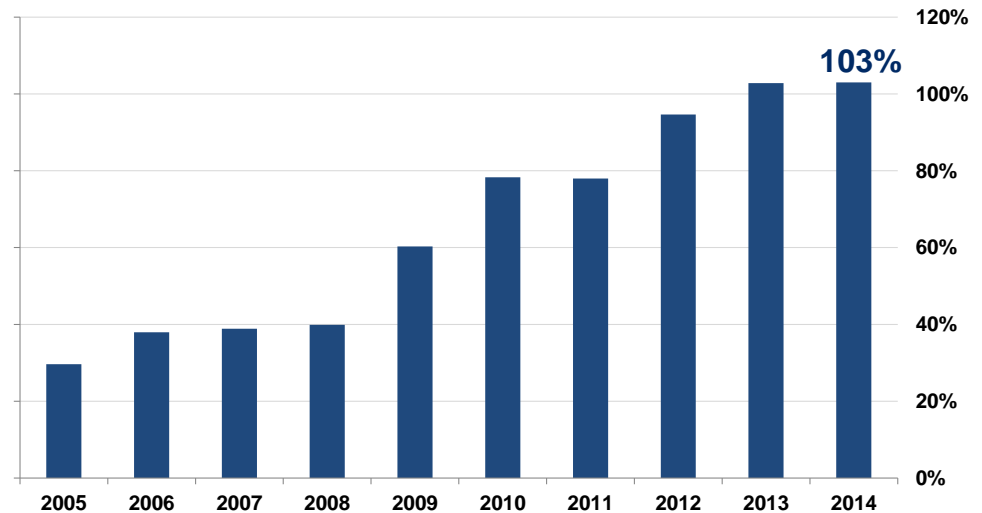


Q115TD ADV through February 4, 2015 / 4Q14 growth rate versus 4Q13

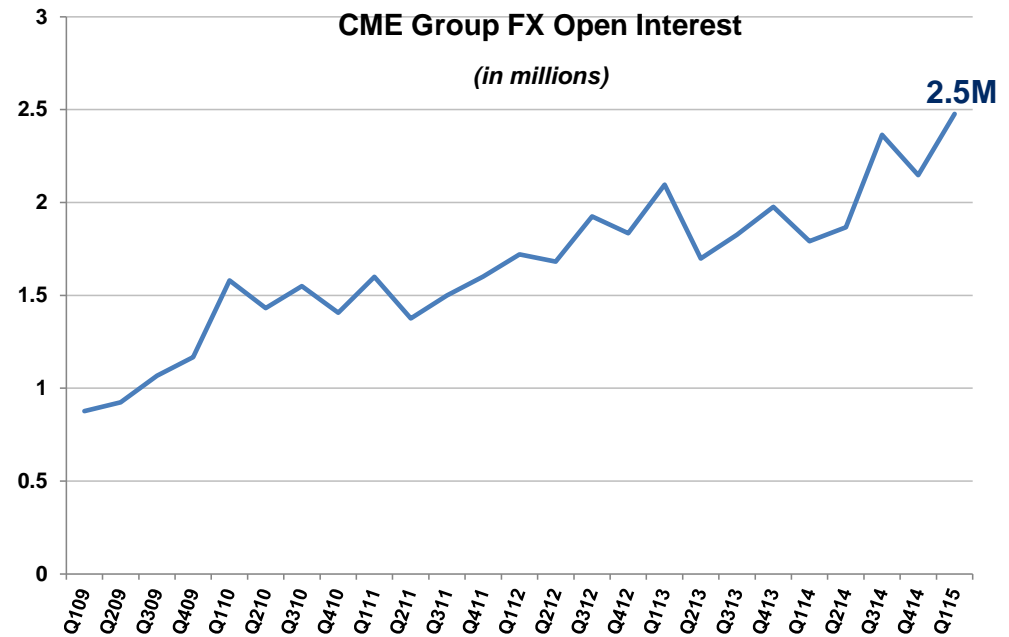
# Opportunities in the Largest Asset Class in the World

- Average daily turnover in global FX market estimated at near \$4 trillion
- CME Group FX futures continue to take significant market share from competing OTC FX execution platforms
- CME Group FX open interest at record levels – reached record 2.7M contract prior to quarterly expiry

CME ADV as a % of EBS  
2005 - November 2014



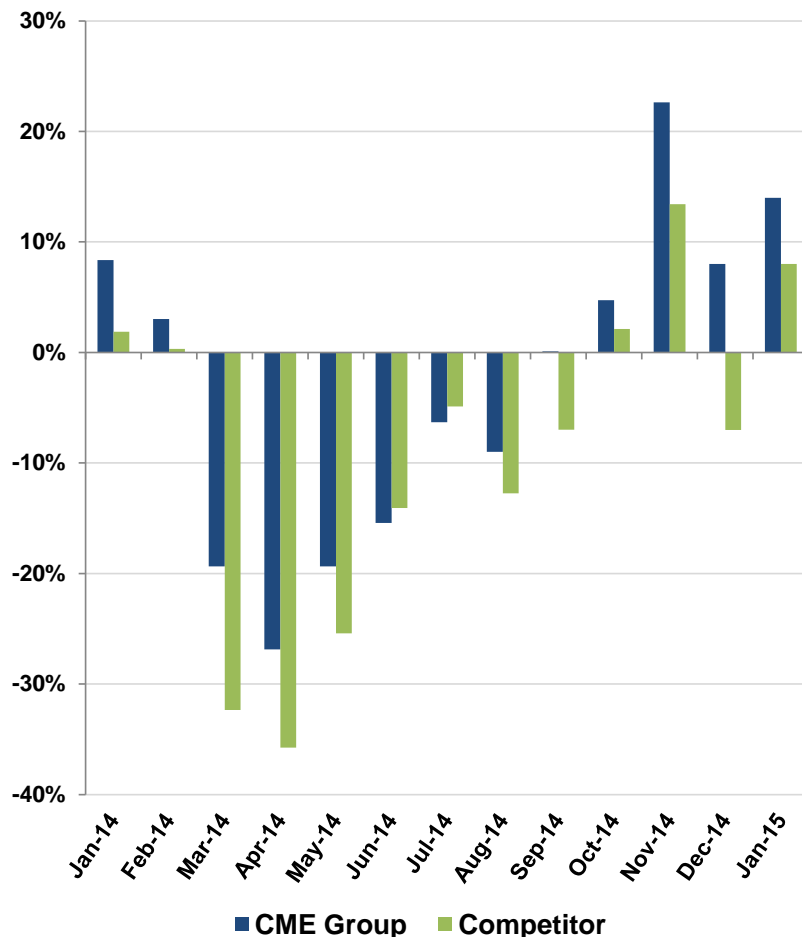
CME Group FX Open Interest  
(in millions)



# CME Group Becoming the First Choice for Global Crude Oil Market Place

## Monthly Energy ADV Year-over-Year Growth Rates

(CME Group excludes Brent futures)

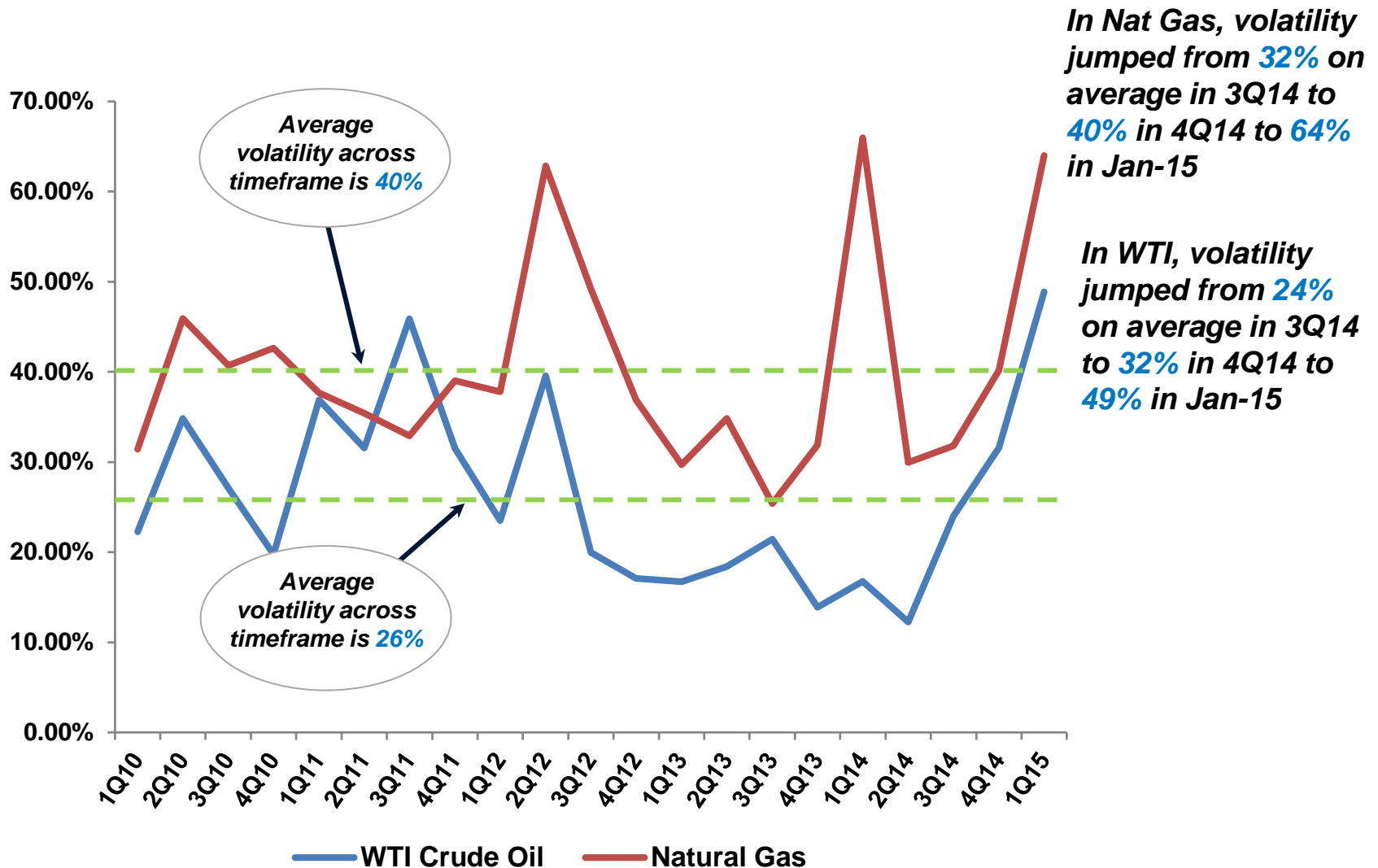


- CME WTI ADV market share vs. ICE Brent ADV
  - 1H 2014 - **51%** → 2H 2014 - **52%** → 2015TD - **54%**
- 4Q14 CME WTI revenue vs. ICE Brent revenue
  - CME WTI \$75 million, **up 40%** y/y
  - ICE Brent \$65 million, **up 31%** y/y
- Open interest increase since 12/31/2014 - CME WTI vs. ICE Brent
  - CME WTI at 7.2 million, **up 26%** YTD
  - ICE Brent 4.4 million, **up 16%** YTD
- CME Group WTI ADV market share vs. ICE WTI ADV
 

|           |            |  |
|-----------|------------|--|
| • 1H 2014 | <b>83%</b> | <i>Hit <b>85%</b> in 4Q14 - highest quarterly share over several years</i> |
| • 2H 2014 | <b>84%</b> |  |
| • 2015TD  | <b>84%</b> |  |
- CME Group Brent ADV market share vs. ICE Brent ADV
 

|           |            |   |
|-----------|------------|---|
| • 1H 2014 | <b>9%</b>  | <i>Reduced Brent market maker incentives by approx. 20% on 1/1/2015</i> |
| • 2H 2014 | <b>12%</b> |   |
| • 2015TD  | <b>14%</b> |   |

# Crude Oil / Nat Gas Volatility Picture



# Innovation Hallmark - New Product Performance



## ***New products / product extensions announced since beginning of 4Q14 include:***

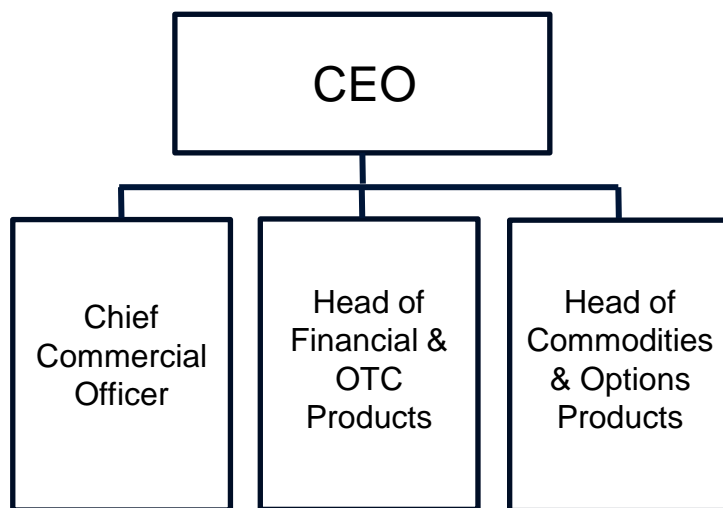
- *US-dollar denominated Malaysian Palm Olein Calendar Swaps, Iron Ore 58% Fe, Low Alumina, CFR China (TSI) Futures, first suite of physically and financially settled European natural gas cleared futures products (six additional in Jan), physically delivered Gold Kilo futures, physically delivered euro-denominated Cocoa futures and US-dollar denominated, cash-settled Cocoa futures*



# Reorganized Leadership Structure/Company Around Client Needs

- *Brings individual business portfolios closer to CEO*
- *Enhances customer responsiveness*

Increase Ongoing Revenue Growth



Improve Execution / Speed to Market



*Driving decreased costs and improved profitability as well as earnings growth*

# CME Group 4Q 2014 Adjusted Financial Results<sup>1</sup>

- Revenue of \$841M, up 22 percent
- Operating Expense of \$341M, up 1 percent
- Operating Income of \$501M, up 43 percent
- Net Income Attributable to CME Group of \$319M, up 50 percent
- Diluted EPS of \$0.95, up 51 percent

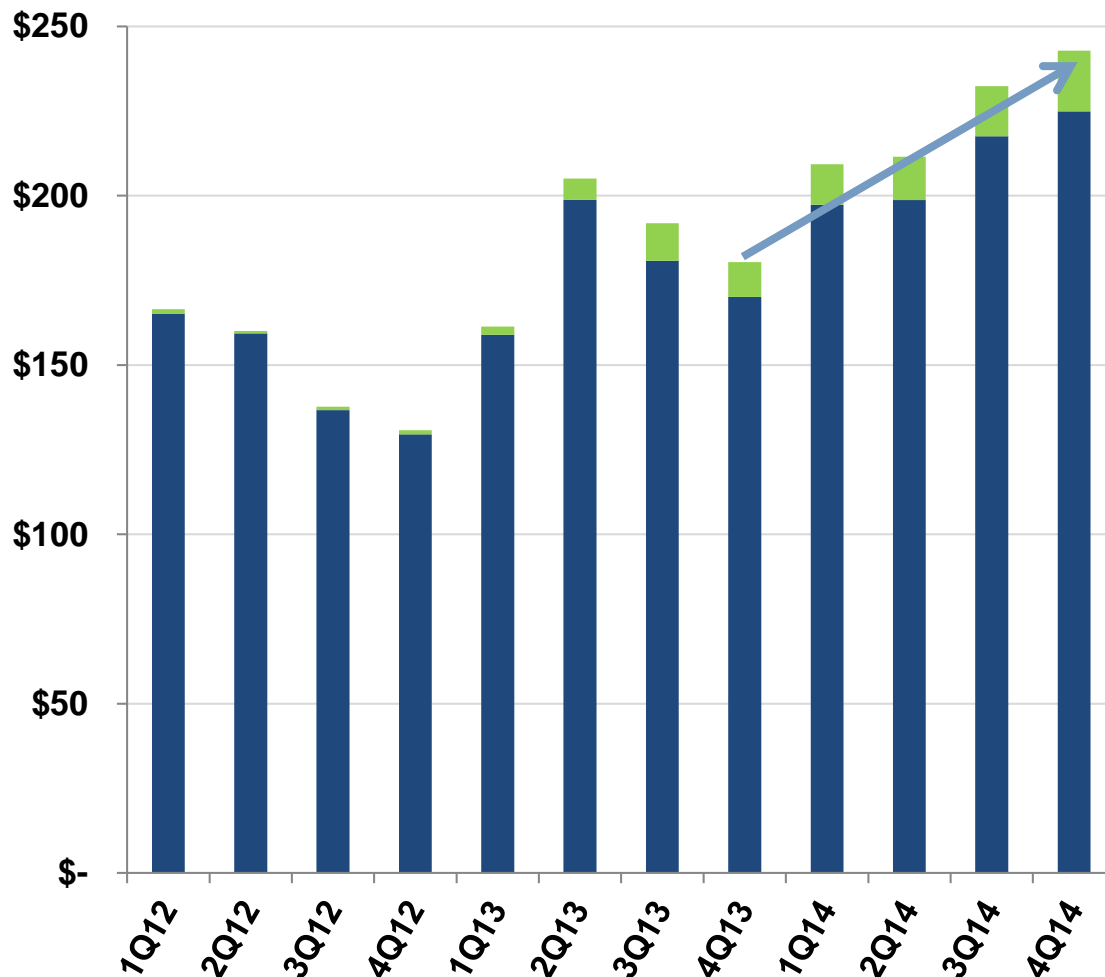
## CME Group Average Rate Per Contract (RPC)

| <u>Product Line</u> | <u>4Q 2013</u>  | <u>1Q 2014</u>  | <u>2Q 2014</u>  | <u>3Q 2014</u>  | <u>4Q 2014</u>  |
|---------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Interest Rates      | \$ 0.504        | \$ 0.481        | \$ 0.473        | \$ 0.473        | \$ 0.472        |
| Equities            | 0.702           | 0.712           | 0.714           | 0.687           | 0.697           |
| Foreign Exchange    | 0.835           | 0.804           | 0.861           | 0.788           | 0.760           |
| Energy              | 1.279           | 1.364           | 1.298           | 1.291           | 1.279           |
| Ag Commodities      | 1.327           | 1.369           | 1.430           | 1.362           | 1.321           |
| Metals              | 1.682           | 1.707           | 1.715           | 1.707           | 1.664           |
| <b>Average RPC</b>  | <b>\$ 0.780</b> | <b>\$ 0.767</b> | <b>\$ 0.749</b> | <b>\$ 0.725</b> | <b>\$ 0.731</b> |

1) A reconciliation of the non-GAAP financial results mentioned to the respective GAAP figures can be found within the Reconciliation of GAAP to Non-GAAP Measures chart at the end of the financial statements. Fourth-quarter 2014 results included foreign exchange transaction net losses of \$11.2 million during the quarter principally related to cash held in British pounds within foreign entities whose functional currency is the U.S. dollar.

# Incremental Interest Rate Revenues Build on the Core

Revenue (in millions)

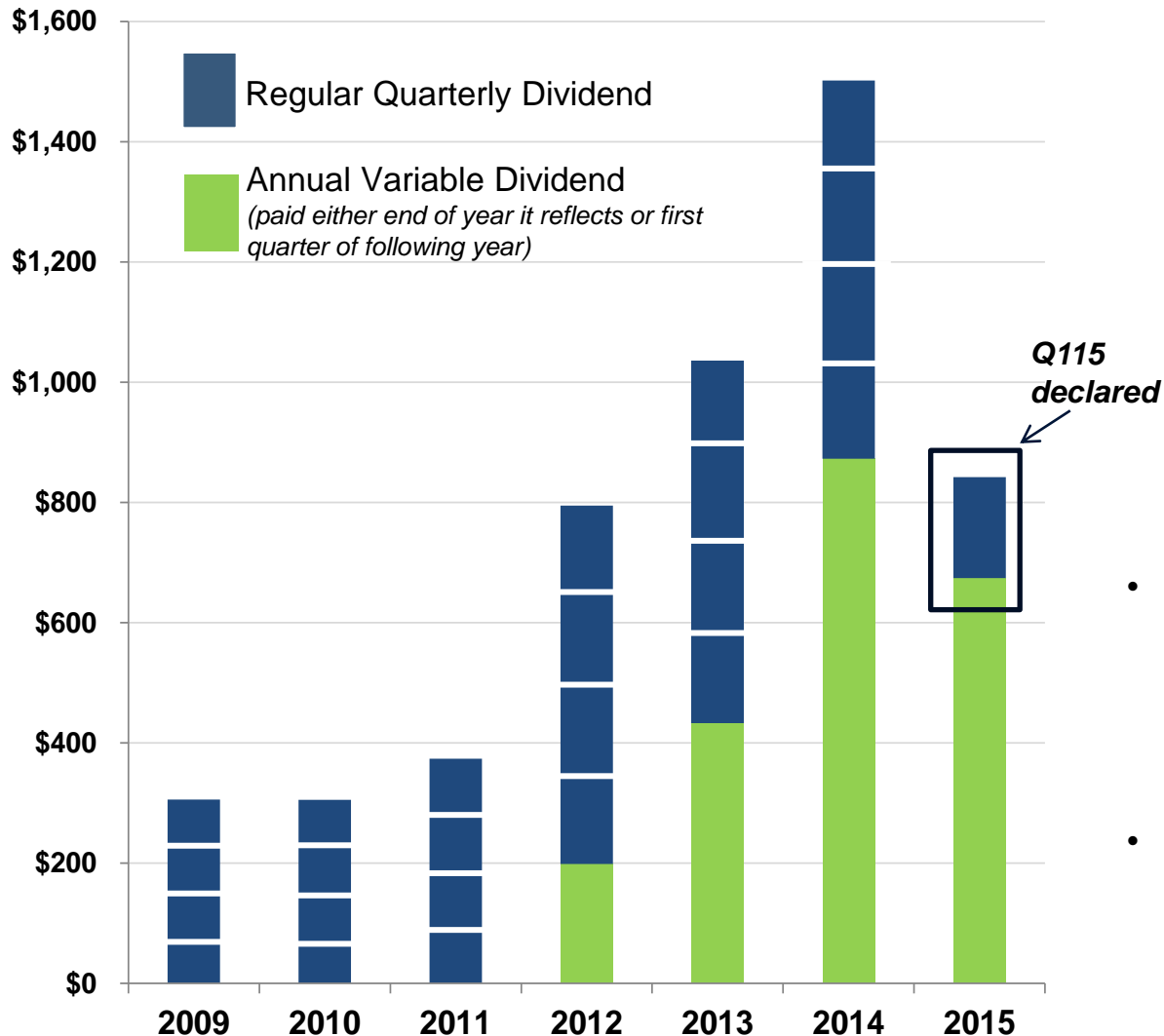


OTC clearing business is strengthening the overall interest rates franchise

- Q414 Core Interest Rates revenue was **up 32%** compared with Q413
- When incremental revenue from OTC interest rate swaps clearing is factored in, total interest rate revenue is **up 34%**

# Committed to Returning Cash to Shareholders

\$ (millions)



- **Unique annual variable structure**
- **Creates opportunity to sweep excess cash to shareholders annually**
- **CME Group to keep \$700M minimum cash**
- *Over \$4 billion has been returned to shareholders in the form of dividends since the implementation of the annual, variable dividend policy*
- *First-quarter 2015 declared dividend of \$0.50 per share is a 6% increase over the prior rate of \$0.47 per share*

*Note – Annual, variable dividend reflecting excess cash from 2011 was paid in 1Q 2012, and annual, variable dividend reflecting excess cash from 2012 (which is illustrated in 2013 on this chart), was paid early in 4Q 2012.*

# Notes / Guidance

## • Operating Expense

- Full-year 2015 adjusted operating expenses expected to come in at \$1.31 billion – same expense level as 2014, which assumes a certain level of license and fee sharing expense as well as bonus expense, both of which generally vary with volume.
- Compensation is likely to be slightly higher in 2015, as normal merit increases and some selective hiring more than offset the reduction from the October restructuring announcement.
- Bonus at the target level in 2015 is approximately \$70 million, which is about the same as the actual payout in 2014, with obviously higher targets. The ceiling on the bonus is \$105 million, and we would have to exceed our cash earnings target by 20 percent to reach that level.
- Marketing and Other expenses should be reduced by approximately \$10 million.
- Expect low to mid-single digit operating expense growth over the next few years, down from prior mid-single digit guidance

## • License Fee Impacts

- Three product groups that contribute to virtually all of the expense:
  - Equities (largest impact) – profit share with index joint venture where CME Group captures 27 percent, below the line
  - Energy – based on Clearport broker incentives / Interest Rate Swaps – founding member revenue sharing

## • Tax Rate

- The effective tax rate for 2015 (pro forma) is expected to be 37 percent, assuming no change in Illinois income tax laws or any corporate tax changes at the federal level.

## • Capital Expenditures

- 2015 full-year capital expenditures expected to come in at \$150 million

## • Market Data / Transaction Fees

- Related to the now expired market data electronic trading waiver, the company will complete the first billing process in late February and will provide more color on the 1Q15 call / current consensus of \$375 million market data revenue in 2015 is a reasonable placeholder in the meanwhile\*
- 2015 transaction fee increases, effective on February 1, 2015, will increase transaction fee revenue by approximately 1.5 percent, assuming the same mix levels in 2015

\*Beginning in January 2015, CME Group started to charge 50% of the monthly rate per screen to previously waived professional subscribers, which equates to \$42.50 per month per CME Group exchange. The company has been working closely with their client base and provided the market a 2 plus year transition period before charging the full rate which takes effect in January 2016. CME Group's policy is now similar to the other exchanges that eliminated market data waivers several years ago.

# Important Investment Highlights

## • Strong competitive position and improving macro backdrop

| ADV            | 4Q14 vs.<br>4Q13 | Jan15 vs.<br>Jan14 |
|----------------|------------------|--------------------|
| Interest Rates | 41%              | 22%                |
| Equities       | 26%              | 22%                |
| FX             | 36%              | 21%                |
| Energy         | 14%              | 19%                |
| Ag Commodities | 18%              | 11%                |
| Metals         | 14%              | 24%                |
| <b>Total</b>   | <b>31%</b>       | <b>21%</b>         |

- Record ADV of 13.7M in 2014, up 9% from 2013, with annual records in interest rates and treasuries
- 4Q14 ADV up 14 percent or above across diverse set of product lines and growth across all product lines to date in January 2015<sup>1</sup>
- Reached record open interest in 4Q14 – 109M contracts, and open interest is up 12% for the year
- Investments in globalization paying off with increasing growth outside U.S.

## • Compelling financial picture

- Within the S&P 500, consistently in top 10 highest in operating margin over last 10 years
- Industry-leading capital return
  - Within the S&P 500, this year highest dividend yield for financial services companies
  - Returned over \$4 billion to shareholders (in dividends) since the implementation of the new dividend policy
- Intensified focus on expenses
  - Expecting full-year 2015 adjusted operating expense to total \$1.3B, flat compared with full-year 2014
  - Longer-term, expect low single digit expense growth

# **CME Group**

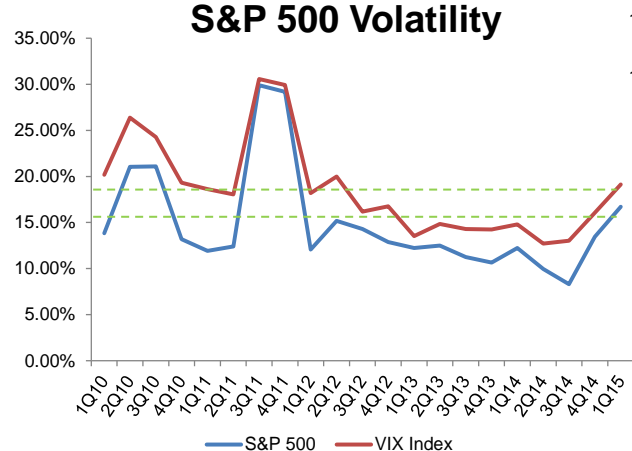
## **4Q 2014**

### **Earnings Conference Call - Appendix**

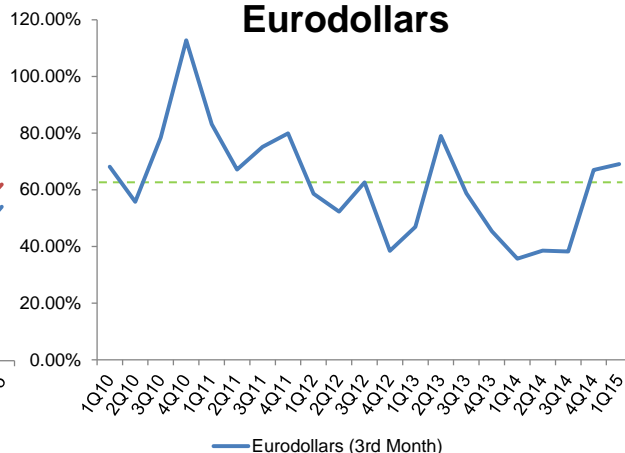
February 5, 2014

# Volatility Uptick Across Many Product Lines

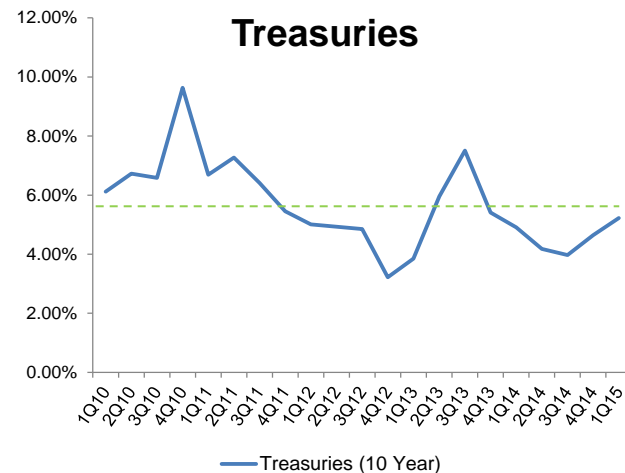
## S&P 500 Volatility



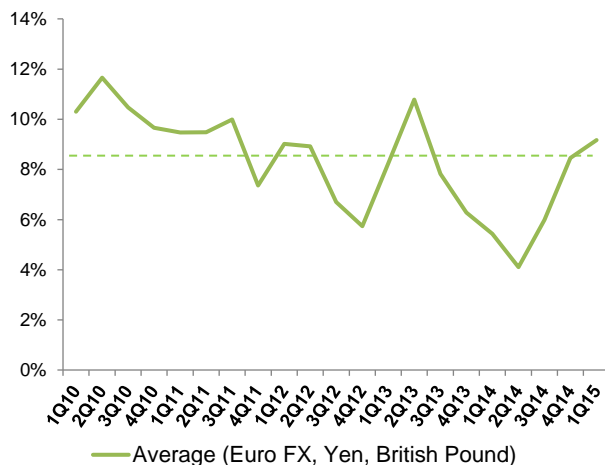
## Eurodollars



## Treasuries



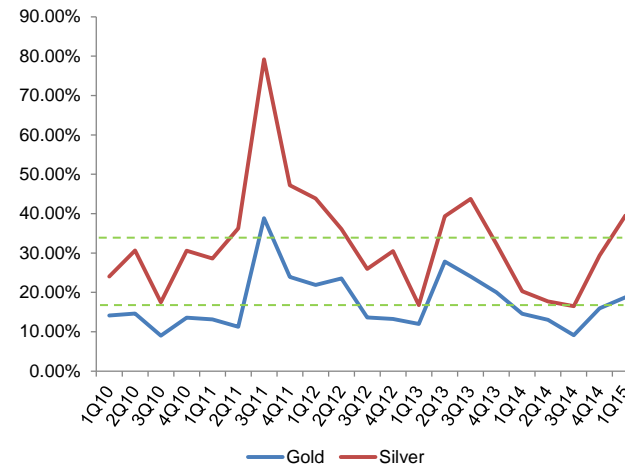
## Foreign Exchange



## Energy



## Metals



----- = trend line of average over timeframe (2010 through 1QTD 2015)