Q4'13 Earnings Call Prepared Remarks
February 4, 2014

- **<u>Gill</u>**

  Thank you for joining us today.

- I'd like to take the opportunity to highlight 2013 results - focusing on Q4 - and then discuss the big picture environment for CME Group in 2014. Afterwards, Jamie will review our Q4 financial results.

- During 2013, there were signs that the U.S. economy had regained some traction following its slowdown in late 2012 and early 2013. Fundamentally, deleveraging is behind us and the rebalancing that has taken place positions the economy for growth. In addition, the annual budget deficit is expected to further tighten over the next few years, reflecting a healthy recovery of the private sector. The tone of the Fed is also positive and this, together with the continued energy boom, all bode very well for our benchmark products across all six asset classes.

- Given all the fluctuations and uncertainty we have faced, our job has been to work on behalf of the industry from a regulatory perspective, and to provide innovative ways for clients to manage risk. Our response to these challenges on many fronts has been exceptional, and we are very proud of what we have accomplished and the way we have positioned our company.

- With that as a backdrop, our fourth quarter ADV growth was in line with what we've seen the last few quarters. Average daily volume for our core futures and options complex was up 11 percent compared to fourth-quarter 2012, driven primarily by continued strong growth in interest rates, which rose 29 percent during the fourth quarter compared to the prior year period. Eurodollar futures and options grew 48 percent, while treasury volumes rose 15 percent. In January compared to the same period last year, interest rate volume increased 18 percent and our Eurodollar business remains elevated, up 45 percent during the month, which is a great sign for us. Innovative product extensions launched in the last three years, accounted for four-and-a-half percent of fourth-quarter interest rate activity.

- Within our energy franchise, we have experienced a strong pickup during the winter months; in particular, we are seeing strength in natural gas. December volume was up 40 percent year-over-year, and January was very strong as well, up 30 percent. We drove strong growth in coal in Europe, up 90 percent in fourth quarter 2013 compared to the same period of the prior year. In addition, volume in the Dubai Omani product grew 36 percent during the year to more than 6,000 contracts per day, and January activity continues to grow, up around 54 percent to 8,200 contracts per day, including a record day a few weeks ago.

- Our other product areas had lower volatility during 2013, including equities, FX and agricultural products. The steady rise in equity market value during 2013 was not conducive for driving equity volume growth; although we outperformed our primary US peer. However, over the last month, there has been a decent pick up in volatility impacting several products and the volume across the board has responded accordingly.

- Our global focus continues to drive outsized growth in volumes overseas. For the fourth quarter, Latin America volumes were up 36 percent, Asia and Europe volumes were up 12 percent, with North America up 8 percent.

- In addition, we will look to expand our global presence by adding new clearing members in key areas. During the quarter, we added China Merchants Futures as our fifth Asian clearing member, which allows us to better address the needs of our increasing client base in the region. We will continue to enhance and expand our network of clearing members there, allowing us to bring our wide range of global benchmark products to new Asian client segments.

- Our options complex also continues to perform well, with fourth-quarter ADV up 39 percent versus the prior year period, building on 31 percent growth during the third quarter. Options on financial products, including rates, equities and FX, were all up more than 40 percent versus the prior year. In January, we traded one million equity options within a single day for the first time. We also had an impressive open interest build in options during 2013, with options open interest increasing 28 percent, outpacing futures, which rose 14 percent.

- Driving this impressive growth in options is our continued success in growing the electronic participation in this complex. We ended 2013 with 45 percent of our total options business trading on Globex, up from 35 percent in 2012.

- Moving onto OTC clearing, we continued to make progress during 2013 following the completion of the three waves of the Dodd-Frank clearing mandate. Highlights for the year include becoming the global leader in dealer-to-customer OTC interest rate swap open interest, launching 11 currencies to bring the total to an industry-leading 18, enhancing our value proposition with seven clearing members now being able to offer portfolio margining, and increasing the total global institutions clearing IRS, CDS and FX at CME to approximately 420.

- As I mentioned earlier, our efforts to position the company to benefit from a changing regulatory environment are starting to gain significant traction and you are seeing a continued shift in market share and open interest into our clearinghouse. Since December, our open interest has grown by $2.7 trillion, or 32 percent, driven by our real money clients, like asset managers and insurance companies. The net result is that we are now the global leader, holding 52 percent of the global outstanding client cleared swaps open interest. In January, we had the highest volume month since inception at around $124 billion per day, excluding the Martin Luther King holiday on January 20th.

- In addition, we have seen clients of traditional swaps ramp up their trading of our futures and options products. However, their use of our core products remains in the very early stages in our view. December marked the 8th straight month we have seen 20 plus percent year-over-year growth in our interest rate futures and options business. Our interest rate RPC reached 50 cents in Q4 for the first time since 2010. This was primarily driven by a continued pick up in volume from non-members. Our deliverable swap futures contract reached a new record level in December of 12,000 contracts traded per day, up 33 percent from the prior peak month of September 2013. Open interest reached 114,000 on December 10th – prior to the roll. We expect to build on this success in 2014, as we plan to launch several new rate offerings during the year.

- Looking forward to 2014, we see good indications that we will be able to build on the momentum realized during the last year, and after four years of modest recovery, most economists believe the U.S. economy appears poised for its best performance since the depths of the financial recession in 2008 and 2009.

- In addition, the impact of government intervention hasn't just been felt in the

U.S. as key global markets have also been affected. For example, there is a lot of focus on MIFID 2 legislation in Europe. There is still a lot of detail and interpretation that needs to take place, with a fairly long implementation period. One of the key aspects we have been focused on is the impact on non EU clearing houses with customers based in Europe. The language on that front has progressed positively during the process, so we don't expect change in terms of our existing core business cleared in the US.

- In light of this, what has been missing from the world economy is the energizing effect of synchronized growth, and with European stability, improved prospects for the U.S., and continued health of Asian economies, the trends are in our favor.

- Overall, we see good indications that the fundamental drivers of the core business are improving, and we are optimistic about the long-term prospects for our developing global initiatives. 2014 has started off well, and our main focus is on enhancing efficiency throughout our company and capturing incremental revenue.

- Now, I will turn the call over to Jamie to discuss the financials.

Jamie

- Thank you Gill, and good morning everyone.

- As Gill mentioned, volume grew nicely during the fourth quarter, and the rate per contract increased based on several positive mix drivers. We were impacted by a few unusual items on the expense side, which I will highlight, but excluding those items, we came in very close to our original guidance on expense for the year.

- Adjusted EPS for Q4 was 64 cents, excluding the NYMEX building sale, which added $27 million of other expense during the quarter, as well as a $7 million pre-tax impact due to an intangible asset write-off by the S&P joint venture, which was recognized in non-operating income/expense.

- Now let's get into some of the details; starting with revenue which was up 4 percent compared to the prior year.

- The rate per contract for the fourth quarter was 78 cents, up from 76.2 cents last quarter. The main driver overall was product mix, with commodity products making up a higher proportion of the total volume in Q4. Within interest rates, as Gill mentioned, we have seen a pickup in non-member activity during each of the last 2 quarters.

- OTC swaps revenue totaled $10.8 million, down from the prior quarter due to a mix shift, with a large sequential increase from our lower priced, high turnover clients.

- Moving on, total fourth-quarter operating expense was $337 million, excluding expenses related to the sale of the NYMEX building. For the year, expenses were approximately $1.271 billion. That was $21 million higher than our original expense estimate of $1.25 billion. There were 2 primary drivers of the variance.

- First, in November, we announced that we were a victim of a cyber-intrusion, making us one of many organizations subject to this type of crime in recent months. During the second half of the year, we expensed $16 million related to CME's response to the event.

- One other item to note, during the year, deferred compensation was $9 million due to the strong equity market growth; as you know, - deferred comp expense is offset in investment income, so there was no bottom line impact. Therefore, we do not normally take it into consideration when setting our expense guidance.

- Returning to taxes, the pro forma effective tax rate for the year was approximately 37.7 percent, and 37.2 percent for Q4, excluding the building related costs.

- Turning to the balance sheet, we had almost $2.54 billion of cash and marketable securities, which includes $750 million held in cash for the February 2014 debt pay down. Our annual variable dividend was paid out in mid-January, and totaled about $870 million, bringing total 2013-related dividends to $1.5 billion, reflecting a payout percentage well over 100 percent, driven in part from one-time items - primarily the building sale proceeds and proceeds from our interest rate hedge. That leaves us about $900 million in cash heading into 2014.

- During the fourth quarter, capital expenditures net of leasehold improvement allowances totaled $39 million, bringing us to $130 million for the year, at the low end of our prior guidance.

- Now let's turn to 2014; we expect operating expenses to come in at approximately $1.31 billion, up less than 3 percent from the adjusted 2013 expense, or up 5 percent when you exclude the cyber incident and deferred compensation. This 2014 guidance does not include deferred compensation, is based on our targeted bonus level, which will vary depending on performance, and assumes a certain level of license and fee sharing expense which also varies with volume.

- Capital expenditures in 2014 are expected to be $175 million. Included in here is approximately $37 million associated with our NYMEX office space to bring it up to our corporate standards and make it more efficient. This will be the first time the space has been updated since the building opened 17 years ago. Excluding that, we expect to be below $140 million again for the year.

- We announced several pricing changes which went into effect recently. First, we adjusted transaction fees and certain tier levels within our core business. Based on 2013 activity and mix levels, we would expect that to result in a 2 to 3 percent increase to transaction fee revenue. In addition, effective last month, we expanded our market data fees for professional screens from $70 per month to $85 per month. Lastly, as many of you know, we are working to eliminate market data fee waivers, a policy many clients have increasingly utilized over the last few years. Beginning in 2014, we are not granting any new waivers, and starting in 2015, we will begin charging 50 percent of the standard fee to existing clients that have the waiver in place. We expect this to add incremental market data revenue beginning in 2015.

- With respect to taxes, we expect our 2014 rate to be between 37 to 38 percent, consistent with 2013.

- In summary, we continue to focus on investing for the future; in particular, we have positioned ourselves to fully take advantage of the changing regulatory and competitive landscape as well as the improving cyclical trends. As always, while investing in our future, we also remain intensely focused on generating excess capital and returning it to our shareholders.

- With that, we'd like to open up the call for your questions. As we have over the last few quarters, given the number of analysts who cover us, we ask that you limit yourself to one question. Please feel free to get back into the queue if you have further questions. Thank you.