CME Group Q1 2011 Earnings Prepared Remarks – April 28, 2011

Craig

- Thank you for joining us this morning. I am pleased to share the highlights of an outstanding quarter in terms of revenue and bottom line results. Our results this quarter are attributable to our continued focus on successfully innovating new products, providing superior customer service and the hard work and commitment of our talented employees. With risk management taking on increased economic importance globally, we saw robust volumes in our core business, as we delivered the most comprehensive product offering available to our clients. We successfully advanced several key longer term initiatives, which we think will continue to position CME Group a step ahead of our competitors.

- During the first quarter, we delivered record revenue of $832 million, up 20 percent, driven by average daily volume of 13.8 million contracts. Commodity volume rose 29 percent, while financial products increased 17 percent. We believe that the breadth and diversity of our products and services is a key differentiator from our competitors.

- Interest rate volume was strong in Q1, despite the ongoing zero interest rate policy and the second round of Quantitative Easing. Our Treasury volume was up 30 percent while Eurodollars rose 23 percent. We had particular strength in our Eurodollar futures and options in the mid curve area, with Eurodollar futures volume beyond the first two years up 100 percent and our Eurodollar mid curve option complex up 50 percent. Within Treasury futures, the strongest growth came from our 5-year Treasury product, which increased more than 46 percent.

- In addition to increasing volume, it's important to note our deep liquidity across our interest rate product suite as well as the rising open interest. For example, within our Eurodollar futures product, throughout the trading day we average more than 60,000 contracts within the best 5 bids and offers, representing $60 billion of liquidity; furthermore, our Treasury futures contracts average a total of 40,000 contracts. Since the beginning of the year, open interest has increased by 2.5 million contracts, or 34 percent, in Eurodollar futures, and 1.2 million contracts, or 32 percent, in Treasuries - growing faster than the same period last year.

- Our interest rate team has continued to deliver product extensions that are demonstrably important to our customers. In January, we launched weekly Treasury options and we have seen an immediate positive response from our clients. Average daily volume surged to 14,000 contracts per day in March. This builds upon the extraordinary success of our Ultra Treasury bond product launched last year. This new offering increased more than 100 percent to 52,000 contracts per day in the first quarter, exceeding our own expectations.

- In keeping with our commitment to provide innovative risk management solutions to all of our customers, including products that may be more relevant for European and Asian investors, last week we announced the introduction of new sovereign yield spread futures. These products, which will be launched at the end of May, are designed to enable asset managers, banks, hedge funds and other institutional investors to efficiently manage exposure to government bond markets in France, Germany, Italy, the U.K., Netherlands and the U.S.

- We continue to make progress with customer readiness for our interest rate swap offering. We have cleared trades for 10 large buy side firms, and we are currently testing with dozens of other firms with many more in the pipeline. Feedback from market participants is that they are waiting for greater clarity on rules from the CFTC before clearing significant volumes. We are very pleased with our level of client support relative to the competition, and we expect this area to further strengthen our interest rate product value proposition and deepen our relationships with our client base.

- Turning to commodities, we had record quarterly revenue in all 3 product lines – energy, agricultural products, and metals - in both exchange traded and OTC cleared products. These records reflect significant shifts in fundamental supply and demand factors, improvement in the economic recovery, as well as increased geopolitical uncertainty.

- Now to energy, we saw rising volumes across the board, with healthy growth in all of our product segments. CME Group's WTI futures grew 34 percent in Q1, which outpaced growth in Brent futures at ICE. OTC activity was very strong during the quarter, with energy-related ClearPort average daily revenue reaching $1.25 million, well above our prior record. Additionally, we achieved record OTC revenues in crude products, power and ethanol, along with relatively strong revenues in our natural gas product line. Notably, we also achieved our highest quarterly ClearPort revenues in agricultural products, metals and FX. Total clearing revenues during the first quarter in these 3 product areas was $4 million, up from $1.4 million in Q1 last year.

- Agricultural products were a standout in Q1 – volume increased 47 percent, with tight corn and soybean stocks, and a wet spring in the Midwest. Open interest continues to expand with March open interest up more than 40 percent. We are seeing increased activity during non US trading hours in these products. In March 2011, average daily volume during non US hours was 91,000 per day, up 117 percent.

- Metals had record daily revenue during the first quarter driven by changing inflation expectations and a flight to safety. Following our launch of iron ore swap and options contracts last year, we recently added three new swap futures products designed for the global steel industry. The ferrous metals market, which includes iron ore and steel, along with related products, is the second largest commodity market by volume after crude oil, and CME Group ferrous metal futures offer risk management opportunities for these vital global commodities. We recently added a new head of our metals business in London, and our major focus in metals is to drive continued global expansion and greater use of our industrial metals contracts, as well as expanding our OTC metals clearing offering.

- Last year, we reorganized our Products and Services area to enhance efficiency and customer service, and to drive ongoing cross selling of our products. We made a thoughtful investment in terms of adding global sales oriented headcount. Over the last year, we have grown the sales and customer service organization from about 120 people to 145. I want to give you a few metrics this quarter that we use to assess the near term performance of the team. First, the level of customer penetration by asset class has been trending positively.

- In the first quarter, 62 of the top 100 customers traded either 5 or 6 product areas, increasing from 53 firms two years ago. 14 firms are now trading only 1 or 2 product lines, down from 21 customers in that category before.

- Given our global growth strategy, it is important to note that we continue to see strong performance during non US trading hours. In the first quarter, we had great liquidity during those hours with average daily volume of 1.75 million contracts traded between 4pm and 7am. The overall growth during this time period was 27 percent, once again outpacing the overall volume growth.   In terms of product areas, during the first quarter – 34 percent of electronic FX volume came during non US hours, with 24 percent in metals and 17 percent in interest rates. The other product areas see approximately 10 percent of volumes during that time. To illustrate the deepening liquidity I'll turn to the equity area. We have doubled the E-mini equity volume percentage traded during non US hours from 5 percent to 10 percent over the last 2 years, and now we trade more equity volume during non US hours than NYSE's FTSE products trade all day.

- Turning to other initiatives, we will officially launch CME Clearing Europe at the end of next week to better serve our European based customers. We will begin with more than 150 OTC energy and commodity products - with up to 15 clearing firm intermediaries. The initial product set includes eight OTC contracts based on the DME Oman crude oil future contract. One innovative new offering will be rapeseed oil, which is used for food, cosmetics and in the manufacturing of biodiesel fuels. Our goal is to offer a full multi-asset OTC clearing service, building on CME Group's clearing experience as well as our established and growing European presence. In the next phase, we expect to add interest rate swaps to the European clearing offering. Once we get more regulatory clarity, we will seek approval to provide margin offsets between cleared OTC products in the U.S. and Europe and CME Group futures and options products. This reflects our industry leadership in maximizing capital and performance bond efficiencies for our customers and clearing member firms. Over the last two decades, we have led the industry in implementing cross margining arrangements and clearing linkages with other clearing houses, including arrangements with the OCC and LCH, our Common Clearing Link with the CBOT in 2003 and our subsequent consolidation of clearing operations with NYMEX and COMEX. As we expand our capabilities in OTC clearing, we will continue to focus on delivering these same efficiencies to our valued customers.

- We also continue to make excellent progress in our globalization initiatives by providing our customers with access to additional foreign products from our partners on CME Globex. Ultimately, our objective is to bring new global customers onto our platform where they can trade any of our existing products.

- Our efforts with partners progressed well during the first quarter – a couple updates. Phase one of our multi asset class platform, which we are jointly developing with BM&FBOVESPA, including the derivatives component, is on track to go live in Brazil by the second half of 2011. At that point, we will increase the revenue we derive from this relationship. In addition, we are beginning to see positive trends in their customers' use of our core products. We had significant growth of 77 percent in Q1 for the South to North business we track, with particular strength in our agricultural, energy and interest rate products.

- In early April, we launched South to North order routing with Bolsa Mexicana, where BMV's customers now trade CME Group products via the order routing link through our Mexico City hub, which is linked to BMV's front-end trading platform. We expect the North to South link to go live in the third quarter of this year.

- Bursa Malaysia, which trades their futures products on Globex, had record average daily volume in Q1, up 52 percent. Their leadership team publically acknowledged the contribution Globex made to their volume.

- In addition, the KOSPI futures traded on CME Globex reached its highest levels this quarter. Clearly, we have positive stories to share with additional global exchange partners and license providers where we can mutually benefit from new or enhanced relationships.

- At this point I would like to turn the call over to Jamie, who will touch on the financial highlights.

Jamie

- Thank you Craig and good morning everyone.

- We are pleased to have posted our highest quarterly revenue during the first quarter, while continuing to invest in future growth. We delivered very strong results, with average daily volume of 13.8 million contracts per day, up 19 percent versus Q1 of last year, driving a 20 percent increase in revenue to a record $832 million. This significant revenue generation drove a 26 percent increase in operating income to $524 million.

- There is one item included in our GAAP results that I'd like to call out. Our Q1 GAAP tax expense included a $164 million benefit associated with a change in our expected effective tax rate and its impact on our deferred tax expense and the release of reserves related to a foreign investment.   Excluding the tax benefit, Q1 net income attributable to CME Group would have been $292 million, and diluted EPS would have been $4.36.

- Moving on to rate per contract, despite near record volume during the quarter, the overall rate per contract was 80.8 cents, down just slightly compared with fourth-quarter 2010. Although the higher volumes resulted in larger discounts, the relative stability in the rate per contract can be attributed to the strength of the product mix with strong growth coming from energy and agricultural products.

- Market data revenue of $107 million for the quarter was up $3 million from the fourth quarter, mainly due to strength of the CME Group Index Services business during the quarter. Activity in our Dow Jones index business continues to outperform our initial projections. Revenue during the first quarter was $23 million, increasing from an average of $18 million during the last 3 quarters of 2010. We have seen particular strength in the commodities and ETF areas of the franchise.

- I'll now take a few minutes to review expenses.

- Compensation and benefits was $122 million, up slightly on a sequential basis. At the end of March, our overall headcount stood at 2,605, up 35 compared with the end of 2010, with half of that increase due to our Elysian acquisition, and the majority of the rest in our technology area for the development of the new multi asset class trading platform.

- Total Non comp operating expense in Q1 was virtually unchanged on a sequential basis, and up 2 percent versus the prior year, primarily driven by marketing and other expense, as well as by licensing and other fee agreements expense.

- Turning to non-operating expense, we received a $14M dividend during the quarter from BM&FBOVESPA based on our 5 percent ownership. If you recall, we generally receive a larger dividend during the first quarter as some of it was a true-up of their 2010 performance.

- Capital expenditures, net of leasehold improvement allowances, totaled $38 million in the first quarter, driven primarily by work on our co-location and data center facility. We have approximately 120 customers who have put down initial deposits and several more who have subsequently expressed interest. We currently expect to move customers into our facility at the end of the summer, with extensive testing in the October/November time frame. We are planning to go live during Q1 of next year, at which time we will begin to generate recurring revenue.

- In Q1, we delivered the highest level of cash earnings in our history. Last year, our quarterly cash earnings averaged $270 million, while this quarter our cash earnings hit $330 million.

- During the quarter we paid down debt of $421 million, including all of the commercial paper we had issued. We raised our regular dividend 22 percent from $1.15 per share per quarter in 2010 to $1.40 per share in Q1.

- During the first quarter, we hit two important milestones related to the capital structure guiding principles we provided in a transparent way last July. At the end of the first quarter, we had more than $700 million of cash and marketable securities on our balance sheet. We also reduced our debt to

EBITDA ratio to below 1 times which we have targeted since completing the NYMEX and Dow Jones transactions.

- We continue to make investments in our core business and in the growth initiatives I mentioned earlier, and we expect to continue to generate significant excess cash. Since we currently do not expect to participate in any major M&A activity in the near term, we will be well positioned to return excess cash to shareholders, and we are in the process of formulating the specifics of our capital return strategy. I am excited regarding CME Group's prospects and look forward to creating value for our shareholders.
- At this point, I will turn it back to Craig for a few closing remarks.

Craig

- In summary, we continue to position the company for sustainable global growth. I am very optimistic about the near-term and long-term opportunities that our company has moving forward. Looking back, we successfully integrated two large acquisitions, we delivered strong cash flow and operating margins during the unprecedented credit crisis, and despite the zero interest rate policy as a backdrop for two years and counting, we have performed at a very high level. During this time, we never stopped providing new and innovative products, we never stopped investing in our technology and clearing infrastructure, we never stopped expanding our global reach through partnerships, and we never stopped adding to our deep bench of talented employees. I am proud of our team's performance during the first quarter.

- There is a lot of market commentary about potential M&A in our space, which has captured the attention of the media and certainly investors. The rationale discussed by potential exchanges who are active participants include 4 major considerations:

- 1) the critical importance of the derivatives area in the context of stand alone or multi asset class exchanges, 2) the benefits of significant and meaningful product diversity, 3) the view that partnering with other exchanges around the world will open markets and drive trading activity in global products particularly from customers in Asia, and 4) the value of providing capital efficiency to customers is essential.

- CME Group already fully represents each of these areas. We embarked on the right strategy five years ago to position the company to benefit over the long-term in all four of those dimensions, and we are not surprised to see other exchanges attempting to follow the same path. If you are a generalist or an exchange oriented investor, and you are looking for a deep, forward-looking, innovative franchise with multiple organic growth avenues, then it's time to consider increasing your exposure to the CME Group.

- Again, thank you for joining us today and now we'd like to open up the call for your questions.

ability to operate our business without violating the intellectual property rights of others; our ability to generate revenue from our market data that may be reduced or eliminated by the growth of electronic trading, the state of the overall economy or declines in subscriptions; 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; changes in price levels and volatility in the derivatives markets and in underlying fixed income, 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 stemming from the financial crisis that began in 2008 and any other future crises; our ability to accommodate increases in trading volume and order transaction traffic without failure or degradation of 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 acquisition, investment and alliance strategy; 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 the repeal of the 60/40 tax treatment of such transactions; the unfavorable resolution of material legal proceedings and the seasonality of the futures business. More detailed information about factors that may affect our performance may be found in our filings with the Securities and Exchange Commission, including our most recent periodic reports filed on Form 10-K and Form 10-Q, which are available in the Investor Relations section of the CME Group Web site. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.