Q2'13 Earnings Call Prepared Remarks
August 1, 2013

Gill

- Thank you for joining us today. I am going to highlight CME Group's second quarter and then turn it over to Jamie to review our financials.

- I am pleased to announce strong results from the second quarter 2013 highlighted by multiple records across our industry leading diverse portfolio of products. Within our core futures, you are seeing a glimpse of how our complex will perform as the economy improves and government intervention recedes. There is a lot of interesting activity happening within our interest rates, OTC and energy complexes, which I'll spend time discussing today, along with a few other areas.

- Second-quarter average daily volume was 14.3 million contracts, up 16 percent from the second quarter of last year. In addition to robust activity from U.S. customers, we had strong growth in electronic trading volumes outside the U.S. Asia volumes were up 28 percent on our Globex electronic trading platform, European volumes were up 18 percent compared to second-quarter 2012, and our emerging Latin America business rose 40 percent. Open interest has also jumped 26 percent year-to-date, up to 88 million contracts, driven by broad-based growth across our product complex including Eurodollar and treasury options, e-mini options, WTI futures, natural gas, gold futures, and corn futures. Additionally, the second phase of the OTC clearing mandate was completed successfully on June 10th, and we are steadily picking up market share versus LCH SwapClear.

- Turning to the highlights of our core products, our interest rate complex continues to perform well. Second-quarter 2013 average daily volume was 6.8 million, up 33 percent compared to the same period last year. Treasury average daily volume was 3.8 million overall, up 38 percent compared to last year, with strong growth in options, up 82 percent versus the same period last year. We set an all-time treasury futures volume record in May, which exceeded the prior record in February. Eurodollar futures and options averaged 3 million contracts per day, up 28 percent versus the second quarter 2012. July volumes there remain strong, relatively speaking, up 28 percent.

- Turning to OTC clearing, as I mentioned earlier, there has been a nice increase in activity following wave two of the Dodd Frank clearing mandate that started on June 10th. Category 2 clients have overwhelmingly chosen CME Clearing, and Category 1 hedge funds and international dealers are now shifting more of their volume to the most capital efficient clearing solution. At this point, over 300 institutions have cleared trades with us. We had 29 new clients in July, who had not traded on our platform previously.

- This momentum has led to strong sequential growth in the daily notional amount cleared in interest rate swaps. Second-quarter 2013 averaged $41 billion per day, tripling activity during the first-quarter. Third-quarter to date is currently at $62 billion per day. Our dealer- to-customer market share has grown from 5 percent in Q1 to 23 percent in July.

- In addition, open interest increased by more than 100 percent during the last 2 months from $2 trillion to over $4 trillion, with over 3,600 client accounts currently holding open positions, while our competitor's open interest grew by 6 percent during the same period. Since May 31st, the combined IRS open interest between CME and LCH has increased by $2.5 trillion and we've accounted for $2 trillion or over 80 percent of it. I believe this indicates we have done extremely well attracting phase 2 clients, made up primarily of asset managers, insurance companies, and GSE's, to our platform.

- We plan to build on this momentum and continue to focus on our entire suite of rates offerings including core futures and options, the Deliverable Swap Futures product, as well as cleared swaps. On August 26, we are launching four additional currencies of IRS, and one additional currency, the Singapore Dollar, in mid-September, bringing our total to 17. At this point our global IRS product scope will be completely in line with our competitor.

- In addition, one of our significant value propositions is portfolio margining. Four clearing members are now live with our solution and we expect an additional 2 to 3 to be live by the end of August.

- We made progress with our Deliverable Swap Futures contract, which increased in average daily volume from 3,100 in Q1 to 5,500 in Q2. We set a daily record volume of 30,000 contracts traded on June 5th. It is still early in the process, but this product stands out as an early success story on the futures side post Dodd Frank, with near 64,000 contracts of open interest currently in place.

- Turning to FX, second-quarter 2013 volume grew 13 percent to a record of more than 1 million contracts equating to $127 billion per day of notional value. This was driven by a quarterly record in the Japanese Yen product in addition to several other currency pairs. FX options also continue to be strong, up 36 percent in Q2 versus the same period last year. It is important to note that we saw particular strength in terms of trading from Asia during the quarter, which grew 48 percent year-over-year. This continues to speak to the continued FX market share gains we are achieving globally.

- Equities have also performed well. Second-quarter 2013 average daily volume was 3.1 million contracts, up 5 percent versus second-quarter 2012, and June was up 10 percent. E-mini options were up 67 percent in the second quarter 2013 versus last year, supported by expanded participation in our weekly and monthly options. In addition, we had record quarterly volume in our Nikkei 225 yen-based product and volume tripled in our Nikkei 225 dollar-based product compared to the prior year. Lastly, open interest is up 22 percent year-to-date, which bodes well as potentially more assets flow into equities.

- Our metals complex also continues to benefit from recent volatility. This led to a quarterly average daily volume record of 471 thousand contracts, up 27 percent. Driving these results is strong growth in our gold and copper contracts. In addition, open interest has grown 29 percent year-to-date.

- Turning to agricultural commodities, the complex continues to perform well following a year of record volatility driven by last year's extreme drought-like conditions in the Midwest.

- Lastly, I will touch on our energy complex where a lot has changed since our last earnings call. Overall energy volumes strengthened during the second quarter, and in July, we were up 11 percent compared to the same period last year. Focusing on crude, during 2011 and 2012, we were very consistent in our discussion with our investors and the media about the bottlenecks at Cushing and the impact on our WTI business, and our view that ultimately the spread between WTI and Brent would tighten as infrastructure changes took root. That has happened. Supplementing that, early in 2013 we made a concerted effort to intensify our dialogue with important energy-related participants in the US, Europe, Asia and the Middle East. We have had the opportunity to discuss the infrastructure impacts and our strategy of offering a full suite of crude products, including WTI, Brent and our growing Omani product with many clients. In addition to crude, we engage in dialogue about natural gas, refined products and the other 5 CME Group product areas. Terry and I have been spending a lot of our time traveling the world, along with other executives, supplementing our dedicated sales force. For example, two weeks ago we were in London, Geneva, Singapore, Shanghai and Tokyo with many important energy participants, including large integrated trading houses and producers.

- In terms of performance, we hit open interest records in both the WTI and Brent futures contracts during the month of June. Given the heavy focus of energy participants on the current shift in crude oil share, the marketplace has taken notice of our WTI regaining a leading position in June and July as the spread has virtually disappeared. ADV in our Brent futures contracts has grown from 24,000 in Q1, to 37,000 in Q2 to near 54,000 in July. Importantly, we are seeing excellent commercial participation, and rising open interest. The main driver of commercial participation in our Brent contract is the fact these clients are leveraging the capital efficiencies across our full suite of refined products and crude products, in particular with significant capital efficiency in certain crack spread trades. Finally, our DME product continues to build from a smaller base, and averaged 8,000 per day in July, up from around 6,000 per day in the first half of the year. We haven’t hit the inflection point to drive more meaningful results, but we are getting closer. In summary on energy, there is still a lot of work to be done and we are committed to help our customers with a wide range of solutions.

- One final note on the core derivatives business, we had record total volume and revenue from Asia during the second quarter. As I mentioned earlier, we saw 28 percent second quarter volume growth, with ADV exceeding 500,000 contracts per day for the first time. Transaction fee revenue jumped 30 percent to $42 million during the quarter. Interestingly, all six product areas grew, with particular strength in FX, metals, Ags and interest rate products.

- In summary, although we are very pleased with the strong results from the quarter and the momentum we have experienced during the first half of the year, we are not satisfied. We still have plenty of work to do to keep the company well positioned once we get past the headwinds we have faced over the last few years. However, what you saw during the quarter is the strength and capability of our core futures complex once we do, with multiple records across our product portfolio. Our global growth strategy, which includes launching the exchange in Europe later this year pending completion of the regulatory review, will further build on our potential and we are extremely excited about the future of this organization.

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

<u>Jamie</u>

- Thank you Gill and good morning everyone.

- Q2 was an excellent quarter in many respects. Volume was up 16 percent compared to the second quarter last year. Sequentially, volume was up 15 percent, and total revenue was up 14 percent. While revenue was up almost

100 million sequentially, expenses were up only 9 million excluding FX impacts, which reflected an incremental margin of 90 percent.

- Let me start the Q2 discussion with revenue –

- The rate per contract for the first quarter was 74.8 cents, down from 78.5 cents last quarter. The largest driver was product mix. While we saw volume increases across all of the product lines, lower average fee products like our interest rate contracts saw 21 percent volume growth versus 10 percent for all other products. The next largest driver of the lower average rate in Q2 was volume discounts which impacted us in rates and FX, with the volume surge from March to June, and lastly, we continue to aggressively incent growth in our energy products.

- Second-quarter Other Revenue was $24 million, which included $5 million of insurance claims related to the coordinated exchange market closures due to Hurricane Sandy last year.

- Moving on, total second-quarter operating expense was $308 million, including a foreign exchange benefit of $1.6 million. As a result of the volume and revenue growth, we saw sequential increases of $6 million in license fees and $5 million in our Q2 bonus accrual.

- Breaking down operating expense in more detail, Compensation and Benefits was $129 million, down slightly from the prior quarter. Lower payroll-related benefit costs and vacation accruals followed the normal seasonal pattern dropping from Q1, and were offset by the higher bonus I mentioned earlier.

- Headcount at the end of the quarter was approximately 2,680, up 65 during the quarter, primarily driven by customer facing hires in products and services, and clearing, along with additional technology employees added in Northern Ireland.

- Overall, our teams are committed to being as efficient as we can on the cost front, even as macro conditions improve. We saw our operating margin during the quarter improve to more than 62 percent, up significantly from Q1.

- Turning to non-operating income, we recorded two dividends this quarter totaling $15.6 million from BVMF, as we indicated on the last earnings call.

- Equity in gains in unconsolidated subsidiaries was $20.2 million, with $21.4 coming from the S&P Dow Jones joint venture. The uptick was driven by our increase in ownership as well as the increase in equities volume and completion of integration of the index businesses.

- Turning to taxes, the effective tax rate was consistent with Q1 at approximately 38.7 percent.

- On the balance sheet, we had more than $2 billion of cash and marketable securities following two tax payments during the quarter. Today, we will be paying off the $750 million we had prefunded. As a result, we expect interest expense to drop approximately $3.4 million per month as we eliminate the double carry.

- During the second quarter, capital expenditures net of leasehold improvement allowances totaled $36 million, bringing us to $55 million so far this year.

- In terms of guidance, we expect 2013 expense to range from $1.25 to $1.26 billion with the variability being driven by volume performance which impacts the variable expenses I mentioned earlier. In terms of specific line items, I expect compensation to be higher in the second half driven by new hires, professional fees based on growth oriented projects we are working on, and Other Expense due to back end loaded marketing and customer events.

- Turning to CAPEX guidance, we are lowering our guidance to $140 million – at the lower end of the previously provided range.

- 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 medium-term favorable 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 the call up 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.

including our ability to provide effective services to the over-the-counter 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, including 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; 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 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 stemming from the continued uncertainty in the financial markets; our ability to accommodate increases in contract volume and order transaction traffic 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 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 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.