CME Group 3Q19 Earnings Call Introduction – October 30, 2019

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 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 Duffy

- **Thank you all for joining us this morning. My comments will be brief, so we can get right to your questions. We released our executive commentary this morning, which provided extensive details on the third quarter.**

- **In Q3, ADV grew to more than 20 million contracts per day, up 30 percent compared to Q3 last year. Normally, the months of July and August are slow, so we are pleased with the activity this year. We delivered record quarterly average daily volume in Metals products which rose 32 percent. ADV in interest rates and equities were each up more than 35 percent. Our options business continues to perform very well. During the 3rd quarter, our options volume reached 4.1M per day or up 32%.**

- **We drove significant growth from customers based outside the United States. During the third quarter, volume originating from Asia reached a record level of 1.2M contracts per day – up 61%. Volume from European based customers increased by 34% vs. Q3 last year and was the third best quarter overall with records in metals and equities. Lastly, the activity from Latin America has accelerated. We had 152,000 contracts per day during the quarter, the second highest in our history.**

- **We continued to deliver successful new product rollouts. Our popular Micro E-mini's ADV grew 35% sequentially from Q2 to Q3. We reached a monthly record in our new SOFR contract in September, with 58,000 contracts traded and a daily record in mid-September of more than 150,000 contracts.**

  New products announced recently include

  - **the E-mini S&P 500 ESG futures,**
  - **US Liquified Natural Gas Export futures,**
  - **and we also developed a bilateral product-licensing agreement between CME and the Shanghai Gold Exchange.**

- **Turning to the NEX integration, we are pleased with how it is progressing. We have made great progress leveraging the joint sales teams to enable cross-selling and to offer the full portfolio of products and services. We are also beginning to combine the office space around the world which should assist with generating revenue synergies at a lower cost. We remain laser focused on this very strategic transaction and look forward to keeping you updated on our progress. With that, I will turn it over to John to provide some additional comments.**

John Pietrowicz

- **Thanks Terry. It was a tremendous quarter. Revenue reached almost $1.28 billion, the highest level we have seen this year, during what is typically a seasonally slow quarter. Terry touched on the strength in our futures and options franchise. We also saw sequential growth in the NEX business including at EBS, Brokertec, and TriReduce. During Q3, our adjusted expenses excluding license fees came in at $409 million, up slightly from the prior quarter. We remain highly confident that we will come in between $1.64 and $1.65 billion in adjusted expenses for the year, which we reduced by $10 million last quarter.**

- **One final note: Earlier this year proposed federal regulations were released related to the U.S. tax legislation enacted in 2017. These regulations clarified whether a deduction would be available related to foreign customers serviced from our U.S. operations. As a result of these regulations and the nearing completion of our 2018 tax returns, we have revised our income tax calculations for 2018 and 2019 to reflect the new guidance. We recorded an $89 million tax benefit in the current quarter. Of this, approximately $52 million related to 2018 and was taken out this quarter in adjusted non-GAAP results. The remaining $37 million relates to the first three quarters of this year, resulting in an adjusted effective tax rate of 20.5% for the quarter.**

Adjusted Q3 diluted EPS including this entry was $1.90. We expect the annual 2019 effective tax rate to be approximately 23.5%.

- **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.**

Statements in this document 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 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 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; 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, 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, 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 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.