CME Group 1Q 2021 Earnings Introductory Script – April 28, 2021

John C. Peschier

Good morning and thank you all for joining us today. I'm going to start with the safe harbor language. Then I'll turn it over to Terry and John for brief remarks followed by your questions. Other members of our management team will also participate in the Q&A session. 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. Detailed information about factors that may affect our performance can be found in the filings with the SEC, which are on our website. Lastly, on the final page of the earnings release, you will see a reconciliation between GAAP and non-GAAP measures. With that, I would like to turn the call over to Terry.

Terrence A. Duffy Chairman & CEO

Thank you all for joining us this morning. Our comments will be brief so we can get to your questions. I hope you and your families are all staying safe and healthy. We released our executive summary this morning, which provided extensive details on the first quarter of 2021. I have John, Sean, Derek, Sunil and Julie Winkler with me this morning, and we all look forward to addressing any questions you have.

We saw a solid volume rebound during the first quarter of this year as we averaged 22 million contracts per day. That represented our 3rd most active quarter ever, following the record activity we saw in Q1 2020 at the start of the pandemic when we averaged 27 million contracts per day.

Importantly, we had a nice rebound from the back half of the year in 2020 and we had a 35 percent sequential increase in average daily volume from q420 to q121. Also, interest rates were up 65 percent to more than 10 million contracts per day in Q1 relative to Q4. In addition, equities, energy and metals were all higher sequentially by approximately 20%.

In terms of products – we had record quarters in Bitcoin futures and SOFR futures. Micro E-mini Nasdaq and Russell were each up more than 100 percent. Agricultural markets remained active particularly in options, with more than 60% growth in both Corn and Soybean options ADV versus Q120. Also, we continue to see strong non-US customer volumes originating in Europe and Asia with approximately 6 million per day during Q121 vs. 4.7 million per day for all of 2020.

We are also pleased with the transition of Brokertec onto Globex for the treasury curve trades, and we did see a recent all-time record in European Repo activity.

Last quarter I mentioned the ongoing innovation across our markets – In Q1 that continued with:

- Japanese energy futures
- Global Emission offset futures
- Ether futures
- Micro bitcoin
- Lithium futures
- Mexican interest rate futures
- And most recently CME Term SOFR
- Also, we announced the JV with IHS Markit which we are excited about.

The main point is we are constantly finding ways to assist our clients with the world's most diverse product offering across all of the critical global asset classes.

With that, let me turn it over to John, who will discuss the financial results.

John Pietrowicz

Thanks Terry.

During the first quarter, CME generated more than $1.25 billion in revenue reflecting average daily volume of 21.8M contracts. Expenses were very carefully managed and on an adjusted basis were $437 million for the quarter and $372 million excluding license fees. CME had an adjusted effective tax rate of 23.6%, which resulted in an adjusted diluted EPS of $1.79.

Capital expenditures for the quarter were approximately $27 million. During the first quarter, CME paid out more than $1.2 billion to our shareholders in the form of our annual variable dividend of $2.50 per share and our most recent regular dividend of 90¢ per share. CME's cash at the end of the first quarter was more than $1 billion.

Our 2021 guidance remains unchanged. We expect total adjusted operating expenses, excluding license fees, to come in at $1.575 billion. We anticipate the spending to be weighted heavier in the second half of the year as the global economy potentially opens. We continue to expect CAPEX to come in between $180 and $190 million. Finally, our tax rate guidance remains between 23.2 and 24.2%.

Please refer to the last page of our Executive Commentary for additional financial highlights and details.

With that short summary, we'd like to open up 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.

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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 at substantially similar trading levels, 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 policies with respect to our products or services 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; our dependence on third-party providers and exposure to risk through third parties, including risks related to the performance, reliability and security of technology used by our third-party providers; 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, social, 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; the impact of the COVID-19 pandemic and response by governments and other third parties; 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 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 transactions and/or repeal of the 60/40 tax treatment of such transactions; our ability to maintain our brand and reputation; and the unfavorable resolution of material legal proceedings. For a detailed discussion and additional information concerning 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.