CME Group 4Q 2023 Earnings Introductory Script

February 14, 2024

Adam Minick

Good morning, and I hope you are all doing well today. We released our executive commentary earlier today, which provides extensive details on the fourth quarter and full year of 2023 which we will be discussing on this call. I will start with the safe harbor language, then I'll turn it over to Terry.

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 statement. 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'll turn the call over to Terry.

Terrence Duffy

Thanks Adam and thank you all for joining us this morning. I'm going start by giving a little color on the broader environment. Following that, Lynne will provide an overview of our financial results and our 2024 guidance. In addition to Lynne, we have other members of our management team present to answer questions after the prepared remarks.

Early last year, I referred to 2023 as a new Age of Uncertainty, and that uncertainty extended throughout the year. We experienced continued inflation, rising costs of capital, increasing geopolitical tensions, and shifting perceptions around the Fed's interest rate policy. All of these factors contributed to our customers' growing needs for risk management, capital efficiencies and demand for our products.

Following the very strong performance of our business in 2022 and 2023, we have seen the speculation that our Interest Rates business could face headwinds based on the expectation that the Fed will start to lower interest rates this year.

In my 40+ years in the industry, I've observed that regardless of whether rates are going up or down, our volumes are typically higher during periods when the change of rates is uncertain, as is the case today. I've never seen such a disparity in opinions on what the Fed may or may not do, and I believe that is a tailwind for CME Group and our rates products.

I mentioned earlier that our interest rates volume was up 16% in 2023 with 4 Fed rate hikes during the first half of the year, building off record volume levels in 2022. In contrast to the view that a rising rate environment is optimal for our interest rates complex, our volume growth actually accelerated since the Fed stopped raising rates in July of last year. In the six months from August of 2023 through January 2024, our rates volume is up 24% year-over-year.

I would also like to comment on the dynamics in the crude oil marketplace, following the Russia/Ukraine war and other geopolitical factors that influenced the price of energy. WTI has become even more relevant to customers in Europe and Asia and cemented its position as the primary reference price for crude oil globally. As the primary market for WTI trading, we continue to generate growth and expand end-user client participation through developing and investing in new contracts, such as CME Group's Argus Gulf Coast contract. In a very short period of time, these contracts have generated significant commercial participation, with current open interest over 500K.

As indicated by the open interest, it's clear that commercial participants prefer CME Group's Argus Gulf Coast contract. We continue to remain focused on the growth of these contracts along with creating capital and technological efficiencies in the entire suite of CME Group's energy complex. This anchors CME Group as the global leader in WTI.

Moving into 2024, we continue to see a wide range of views as it relates to the health of the global economy – whether it's inflation, unemployment, or monetary policy. Also, there are ongoing geopolitical tensions and supply chain disruptions continuing in certain parts of the world. Additionally, we're approaching political elections in over 60 countries this year. The uncertainty of those elections – and the politics that could come from that are basically unknown to all, which only leads to market participants continuing to manage risk.

All that being said, 2024 is still very much in the Age of Uncertainty and our products remain critical risk management tools for our customers. We have seen this reflected in our strong start to 2024 where we delivered our highest January average daily volume in our history of 25.2 million, up 16% relative to last year.
I'll now turn the call over to Lynne to review our financial results.

Lynne Fitzpatrick

Thanks, Terry and thank you all for joining us this morning. In addition to the volume records Terry discussed, we delivered record financial results in 2023. Our revenue of $5.6 billion grew 11% compared to 2022. Our annual adjusted expenses, excluding license fees, were approximately $1.526 billion including $56 million related to our cloud migration. In aggregate, our adjusted operating expenses were $9 million below our annual guidance. Our adjusted operating margins for the year expanded to 66.9%, up over 200 basis points from 2022. We delivered $3.4 billion in adjusted net income resulting in 17% earnings per share growth for the year.

During the fourth quarter, CME Group generated more than $1.4 billion in revenue, a 19% increase from Q4 2022 with average daily volume up 17%. Market data revenue grew 9% from last year to $167 million. Expenses were very carefully managed and on an adjusted basis were $490 million for the quarter and $393 million, excluding license fees and $16 million in cloud migration costs. CME Group had an adjusted effective tax rate of 21.7%, which resulted in adjusted net income of $865 million. Our adjusted EPS attributable to common shareholders was $2.37, up 23% from the fourth quarter last year, and represented our 10th consecutive quarter of double digits earnings growth.

Capital expenditures for the fourth quarter were approximately $23 million and cash at the end of the year was $3.1 billion. CME Group declared over $3.5 billion of dividends during 2023, including the annual variable dividend of $1.9 billion which was paid in January.

Turning to 2024 guidance, we expect total adjusted operating expenses, excluding license fees but including cloud migration expenses, to be approximately $1.585 billion.

Total capital expenditures net of leasehold improvement allowances are expected to be approximately $85 million, and the adjusted effective tax rate should come in between 23% and 24%.

Finally, in November, we announced transaction fee adjustments, which became effective February 1st. Assuming similar trading patterns as 2023, the fee adjustments would increase futures and options transaction revenue approximately 1.5%-2%. Taken in aggregate with the fee changes for market data and non-cash collateral which took effect January 1st, the fee adjustments would increase total revenue by approximately 2.5%-3% on similar activity to 2023.

In summary, we are very proud of the results we were able to deliver as a firm this year, driving 11% revenue growth and 17% adjusted earnings growth in 2023 from our previous record year of 2022.

We'd now like to open up the call for your questions. Thank you.