CME Group 1Q 2024 Earnings Introductory Script

April 24, 2024

Adam Minick

Good morning, and I hope you are all doing well today. We released our executive commentary earlier this morning, which provides extensive details on the first quarter 2024 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 to make a few brief comments about the quarter and the overall environment. Following that, Lynne will provide an overview of our first-quarter financial results. In addition to Lynne, we have other members of our management team present to answer questions after the prepared remarks.

Our performance in the first quarter was strong evidence of the ever-growing need for risk management globally. The first quarter average daily volume of 26.4 million contracts was the 3rd highest quarterly ADV in CME Group's history. The only higher quarters were first-quarter 2020 at the onset of the pandemic, and first-quarter last year which was impacted by the significant bank turmoil in March and created the much tougher comparison for March 2024.

Despite no specific macro event or change in Federal Reserve rates occurring in Q1, we had the highest January ADV to date, up 16% year-over-year, and a February that included the highest monthly Interest Rate ADV in our history of 17.2 million contracts, up 6%.

We achieved quarterly ADV records for both Treasuries of 7.8 million contracts, and overall options of 5.9 million contracts. Both Equity Index and Energy options reached all-time high levels. Our non-US ADV also reached a record level of 7.4

million contracts, driven largely by 38% growth in Energy, 29% in Agricultural products, and 7% in Metals.

In total, we delivered 14% ADV growth across our physical commodities products to 4.7 million ADV, which included 16% year-over-year growth for both Energy and Agricultural products. This strong first quarter activity across our business lines helped generate record adjusted quarterly financial results which Lynne will detail in just a moment.

Activity so far in April has continued to build on many of these trends. Following the strong first quarter for our physical commodities asset classes, they are up 26% to date in April as of April 22. Metals ADV, specifically, is up 76% and the complex reached its highest daily volume in history of 1.7 million contracts on April 12th.

On the financials side of the business, the CPI release on April 10th was a great example of how important every data point is for the market to adjust positions to manage risk. We reached nearly 44 million contracts traded that day, and the wide range of views around the health of the global economy and the nuance related to interpreting the many different economic indicators continues. As a result of the strong market dynamics, year to date through April 22, our ADV is up 4% including year over year growth in all 6 of our asset classes.

CME Group continues to provide deep liquid markets across global benchmarks to deliver the most operational and capital efficiencies to market participants. CME Group's multi-asset class offering is in higher demand today than ever.

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. During the first quarter, CME Group generated nearly $1.5 billion in revenue, up 3% from a very strong first-quarter in 2023. Within the physical commodities asset classes, quarterly revenue was up 14% year-over-year and represented approximately one-third of clearing and transaction fees in the quarter. Market Data revenue reached a record level, up 6% to $175 million. Other Revenue increased 37% to $104 million largely due to the increased non-cash collateral fee implemented in January.

Continued strong cost discipline led to adjusted expenses of $462 million for the quarter and $374 million, excluding license fees. Our adjusted operating margin for the quarter was 68.9%, up from 68.2% in the same period last year. CME Group had an adjusted effective tax rate of 23.0%. Driven by the strong demand for our risk management products, we delivered the highest quarterly adjusted net income and earnings per share attributable to CME Group in our history at $911 million and $2.50 per share, respectively, both up 3% from the first quarter last year. This represents an adjusted net income margin for the quarter of over 61%.

Capital expenditures for the first quarter were approximately $16 million and cash at the end of the period was approximately $1.7 billion. CME Group paid dividends during the quarter of approximately $2.3 billion, and we have returned nearly $25 billion to shareholders in the form of dividends since implementing the variable dividend policy in early 2012.

We are very proud to deliver the best adjusted quarterly earnings in our history and are pleased to see this strong start continue into the second quarter. Year to date through April 22nd, 42, or more than half, of our trading days have been over 25 million contracts, versus 28 days last year demonstrating more consistent, higher demand for our products. At CME Group we continue to focus on providing the risk management products needed by our clients and driving earnings growth for our shareholders.

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

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; 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 programs 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 and third party providers that our clients rely on; volatility in commodity, equity and fixed income prices, and price volatility of financial benchmarks and instruments such as interest rates, 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; 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 performance of our joint ventures with S&P Dow Jones (S&P Dow Jones Indices LL) in index services and in trade processing/post trade services (OSTTRA), our primary business and distribution partners' actions and our partnership with Google Cloud; variances in earnings on cash accounts and collateral that our clearing house holds for its clients; impact of CME Group pricing and incentive changes; impact of aggregation services and internalization on trade flow and volumes; any negative financial impacts from changes to the terms of intellectual property and index rights; our ability to continue to generate funds and/or manage our indebtedness to allow us to continue to invest in our business; industry, channel partner and customer consolidation and/or concentration; 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; increases in effective tax rates, borrowing costs, or changes in tax policy; 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 other recent periodic filings, including our Annual Report on Form 10-K for the year ended December 31, 2023 as filed with the Securities and Exchange Commission ("SEC") on February 28, 2024, under the caption "Risk Factors".