Q1'14 Earnings Call Prepared Remarks
May 1, 2014

- **Gill**

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

- I am pleased to announce solid results to start the year highlighted by multiple records across our industry leading diverse portfolio of products. The major driver of this performance was strong growth in short term interest rate volumes throughout the quarter, further sparked by a report from the Federal Reserve in late March indicating that the Federal Open Markets Committee average estimate of the year-end Fed Funds rate in 2015 and 2016 had increased noticeably. The Federal Reserve also indicated that their definition of the "considerable period" during which rates would remain low beyond the end of quantitative easing may be only 6 months. The Federal Reserve Chair later softened this guidance on rates, nevertheless, the Fed Funds futures curve, an implied estimate of when rates will rise, shifted upward with the market expecting the Fed Funds rate to increase sometime in mid-2015. As we continue to see positive economic signs and an evolving desire within the Federal Reserve that extraordinary support measures are no longer needed, our interest rates options products, which allow for more sophisticated risk management of volatility and timing, have been rapidly growing.

- The market reacted positively in the first quarter 2014 to this momentum. Average daily volume for our core futures and options complex was up 9 percent compared to first-quarter 2013, mainly driven by strong growth in our two largest product areas based on volume: interest rates and equities. Our focus on building out and expanding our options franchise continues to successfully grow this important part of our overall business. In total, first-quarter 2014 options ADV was 2.5 million contracts, the second highest ADV and revenue quarter ever for options, and was up 40 percent compared to last year.

- Interest rate trading volumes rose 19 percent overall during the first quarter 2014 compared to the prior year period. Eurodollar futures and options grew 46 percent in the quarter, highlighted by growth of 106 percent in options, as well as a new daily volume record in Eurodollar futures of 6 million contracts traded on March 19 following the Fed's comments. While total treasury futures and options average daily volume was flat in the first quarter 2014 compared to last year, treasury options continue to perform well and were up 18 percent. In addition, momentum continues to build in our Ultra T-Bond futures and options product which had record quarterly average daily volume of 104 thousand contracts, up 22 percent compared to the first quarter 2013.

- April was also a very strong month for our interest rate complex with average daily volume up almost 40 percent for the month versus the same period last year, highlighted by growth of more than 70 percent in Eurodollar futures and options for the month. Our Eurodollar complex is the clear choice for the market to express its views of the FOMC's policy. Over the last 12 months, open interest in Eurodollar options has doubled. The key driver here is the likely end of quantitative easing in the fourth quarter of 2014 which is already shifting attention to the next big policy decision – when and how much to raise the target Federal Funds rate. With the rate decision coming into focus, market participants have begun to adjust their risk management activities in the short end of the interest rate curve.

- Our interest rate swap over-the-counter complex has also benefitted from the Fed's actions as well as our continued efforts to add new capabilities. Open interest continues to trend upward, increasing over 50 percent from the end of the year to $13.7 trillion at the end of April. Over 440 global market participants have cleared at CME Group taking advantage of the most capital efficient solution in the industry. Eight clearing members are now live with the service and over 30 customer accounts are already benefiting from this scalable solution. Those clients using our portfolio margining service, are saving on average over 40 percent through margin offsets, totaling close to $2 billion of efficiencies.

- Average daily notional volume cleared in the first quarter 2014 was $125 billion with a new daily record of $264 billion cleared on March 20, 2014. Although we have experienced fluctuations in market share for our dealer-to-customer IRS notional volume cleared, we have experienced a steady increase in the amount of daily trades executed in our market, from about 1,200 per day in Q4 2013 to 1,500 in Q1 2014, at a level that was consistent with our primary competitor. The number of trades cleared has a much higher correlation to revenue than does notional value of cleared trades which Jamie will explain when he discusses the financials.

- As I mentioned, equities was a strong performer in the quarter, which is continuing into the second quarter. During Q1 we saw the benefits of having a broadly diversified equity product line, with our overall equity average daily trading volume up 11 percent versus last year, including growth in excess of 30% for our NASDAQ, Dow and Nikkei index products. Equity E-Mini Options also rose 66 percent during the first quarter compared to Q1 last year.

- Turning to foreign exchange, the global FX market continues to suffer this year driven mainly by the FX benchmarking scandal and extremely low levels of volatility. While our FX average daily volume was down 19 percent in the first quarter compared to q1 last year, we continue to outperform the broader OTC FX market where we saw EBS's FX volume down 34 percent year-over-year. And based on our own customer analysis, as well as from recent research notes from Greenwich Associates, we feel that the market is increasingly adopting exchange-traded FX futures, which directly ties to our European exchange strategy.

- We launched our London-based derivatives exchange, CME Europe, earlier this week. Securing regulatory approval to launch CME Europe marks a critical milestone in our global growth strategy. Our European clients are increasingly looking for ways to manage risk and access liquidity in their local jurisdiction and launching a dedicated European exchange enables us to offer products tailored to their specific needs. This allows us to access a new, non-US client base, and with the move to central clearing coupled with London's role as the center of global FX trading, opening CME Europe for business strengthens our competitiveness in this high growth region.

- Also building on our globally-relevant products, we announced that we will launch a North American physically delivered Aluminum futures contract that will begin trading in the second quarter 2014, pending all regulatory approvals. This new Aluminum futures contract will offer global aluminum market participants a new tool for managing their exposure to volatile North American prices, while giving them access to physical aluminum at a number of CME Group-approved warehouses across the U.S.

- Moving on to our other products, the energy market slowed after the fast start to the year. Natural gas average daily volume was strong in January and early February with the especially cold winter in the Midwest and Northeast. The high volatility experienced, however, has dropped significantly, with overall average daily trading volume in the energy sector for the quarter basically flat.

- And lastly, before I turn the call over to Jamie to discuss our financials, I want to touch on the recent news surrounding high-frequency trading and the impact in our markets.

- Let me start by saying we are part of a highly regulated industry and the most important thing for CME Group is the integrity of our markets for each and every participant. Any discussion of how to enhance market structure and efficiency – whether for derivatives, equities, or other markets – is an important one to have. It is also important to acknowledge that markets continually evolve and therefore discussions about safeguards and efficiency must also evolve.

- CME Group has been, and will continue to be, an active leader in those discussions. Likewise, we have been at the forefront of market and system innovations designed to safeguard and protect customers. As markets have become faster and more highly automated, CME Group has developed an array of capabilities to manage risk and volatility and mitigate market disruptions. Those include credit controls, stop-loss logic utilized during the flash crash, velocity logic, and messaging volume controls that will automatically reject anomalous orders caused, for example, by an order entry error or a malfunctioning algorithm.

- CME Group's regulatory databases capture hundreds of millions of orders and trade messages, market data messages, cleared trade records and position records each day, which are integrated with other reference data we maintain to provide a comprehensive view of CME Group markets.

- We can identify who is doing what, for whom, and when, down to the millisecond. Orders entered via automated systems and the teams who operate the automated systems are identified in the audit trail.

- In our markets, high frequency traders are not afforded any special access or information that is not available to all other market participants. HFTs do not have access to, or information about, customer orders before the orders reach the central limit order book. Market data is made available to all subscribers at the same time, and they have a number of options to choose how they want to receive it.

- And lastly, it is important to remember that market participants, regulators and academics have been discussing automated trading for years. Significant analysis has been done highlighting the benefit of these types of participants existing in our markets given the liquidity they provide, which ultimately tightens the bid/ask spreads and reduces costs.

- The team, including Terry, is prepared to answer any detailed questions on this topic you may have so please feel free to ask during the Q&A session.

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

Jamie

- Thank you Gill, and good morning everyone.

- As Gill mentioned, volume grew nicely during the first quarter, driven by rates and equities. First-quarter ADV was up 9 percent, revenue was up 8 percent, diluted earnings per share was up 14 percent, and the operating margin was 58 percent.

- Adjusted EPS for Q1 of 83 cents, excludes FX fluctuations, prior period favorable tax results and changes in deferred taxes due to apportionment factors outlined in our press release.

- The rate per contract for the first quarter was 76.7 cents down from 78 cents, last quarter. The main driver of the drop overall was strong growth in our lower priced interest rate contracts and we saw a higher proportion this quarter from members – with member volumes growing 22 percent and non-member volumes growing 15 percent. The transaction fee pricing changes we implemented beginning this year added about 1.9 cents per contract, within the 2 to 3 percent range we expected.

- OTC swaps revenue totaled $12.8 million, up 19% versus last quarter. Within interest rate swaps, as Gill mentioned, because of the bifurcated pricing structure in OTC, the trade count is the best indicator of revenue. In Q1, we captured on average of about $128 per OTC trade, and we had approximately 1,500 trades per day. In 2013, we averaged around approximately $130 per trade. In terms of market share on trade count, we were at 49 percent in Q1, up from 48 percent in Q4 2013 and 47 percent for all of 2013. We plan to release the average daily trade count on a monthly basis, which should help you in terms of modeling.

- Market data came in at $89 million up 17 percent vs. last quarter. The screen counts were fairly stable, with attrition during the quarter of less than 1 percent despite the pricing change that took effect on January first. Additionally, the elimination of the fee waiver for new clients took effect beginning April 1st, which should have a mitigating impact on overall terminal attrition going forward.

- Moving on, first-quarter operating expense was $325 million, excluding a $3.1 FX benefit and $800,000 of deferred compensation expense, which we plan to remove for comparison purposes each quarter. Adjusted history excluding these and other items previously identified for the last 5 quarters is available on the income statement data file on our website. This result compares favorably to the Q4 2013result.

- Our full year 2014 guidance remains at $1.31 billion, which assumes a certain level of license and fee sharing expense as well as bonus expense, both of which generally vary with volume.

- Q1 non-operating expense was $8.9 million, excluding the deferred compensation impact. We mentioned in our last volume release that we did not receive a dividend in Q1 from BM&F, similar to last year. Interest expense is down to $33.7 million based on the payoff of a portion of our debt in February. Lastly our Index joint venture income for the quarter was the best yet, partially driven by increases in ETF assets under management and exchange traded derivatives.

- Turning to taxes, the effective rate for the quarter was approximately 37.4 percent on a proforma basis.

- And now the balance sheet - we had approximately $1.1 billion in cash at the end of the quarter, reflecting payment of our $750 million note maturing in February and payment of our $870 million fifth dividend in January. This brings our total 2013-related dividends to $1.5 billion. Over the last two and a half years, since we implemented the new dividend policy, we have returned $2.9 billion dollars to our shareholders in the form of dividends, representing in excess of 10 percent of our market cap.

- Lastly, during the first quarter, capital expenditures net of leasehold improvement allowances totaled $37 million.

- In summary, we are keenly focused on planting the seeds for future growth while also ensuring that our core business is positioned to benefit as various macro themes continue to play out.

- With that, we'd like to open up the call 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.

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 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, 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; 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; 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 and control the costs associated with our strategy for acquisitions, investments and alliances; 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.