CME Group 4Q19 Earnings Introduction – February 12, 2020

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. Our comments will be brief, so we can get right to your questions. We released our executive summary this morning, which provided extensive details on 2019 and the fourth quarter.**

- **Fourth-quarter ADV ended slowly with 16.9 million contracts, down from an extremely active 4Q18 period.**

- **We are very pleased with the work we did to integrate the NEX business during 2019, including back office migrations to support Finance and HR systems, and the building of an integrated global sales team. Importantly, our Globex technology migration is on track for BrokerTec and EBS.**

- **During 2019, we had 40 trading days over 25 million contracts, up from 35 days the prior year. We had annual volume records in interest rates, metals and total options. We continued to position CME Group for the long term by launching innovative new products, tools and services to support customer needs, and to create capital and operational efficiencies for market participants.**

- **We drove significant growth from customers based outside the United States**

during 2019. During the year, non-US trading volume grew 10% to almost 5 million contracts per day. During Q4, non-US ADV expanded from 24% of the total volume to 27%, and the proportion increased year-over-year across all six product lines. So far in Q1, our business from outside the United States is up double digits in all 6 asset classes.

- **We continued to deliver successful new product rollouts during 2019. Our popular Micro E-mini ADV traded approximately 106 million contracts since its launch in May, with diverse participation from a customer segment and regional perspective. We gained traction in innovative products including SOFR futures and CME FX Link which just set a daily trading record in early January of this year. Also, we are very pleased to have launched E-mini S&P ESG futures as well as our new Bitcoin options product.**

- **So far in Q1, our markets have been fairly active with total volume up more than 10 percent. It's worth noting that activity in our higher RPC commodity contracts is particularly strong with metals up more than 50%, energy 20% higher and Agricultural products up more than 10%. Total open interest has increased from 113 million at year- end to the current level of nearly 128 million contracts.**

- **I look forward to answering any questions you have, but before that, I will turn the call over to John to provide some additional comments.**

<u>John Pietrowicz</u>

- **Thanks Terry.**

- **We made a lot of progress during 2019 as we integrated NEX, attracted new customers and created innovative solutions. We delivered $4.9 billion in revenue and managed our expenses very carefully which ultimately drove $6.80 in adjusted EPS. These strong results led to an annual variable dividend of $2.50 per share and we recently announced our regular dividend of 85¢ per share, a 13% increase from last year.**

- **In the fourth quarter, we faced tough comparables to a very strong Q4 of 2018. Despite the headwinds, we continued to manage the business very well. Expenses were virtually flat with the previous quarter and we delivered $1.52 in adjusted EPS.**

- **One thing to note for the quarter, as you know our business experiences mix shifts in product, venue and membership class. In December, we experienced an unfavorable mix shift with a higher proportion of member trading and a lower proportion of privately negotiated trades in our rates business which reduced its rolling three month RPC for the month of December. None the less, the rates RPC was up sequentially for the quarter and up year-over-year.**

- Moving to 2020, we will continue to execute on our strategy, integrate the businesses and migrate customers from the legacy BrokerTec system to Globex. In terms of our guidance for this year, I want to provide some background: We started 2019 with initial adjusted expense guidance of $1.65 to $1.66 billion. For the full year we were $13 million below the low end of that range at $1.637 billion. For 2020, we currently expect full year adjusted operating expenses, excluding license fees, to be between $1.64 and $1.65 billion.

- For capital expenditures, excluding one-time integration costs and net of leasehold improvement allowances, we expect to be in the range of $180 million to $200 million.

- By the end of 2019, we targeted $50 million in run rate expense synergies and at year-end we exceeded that target and achieved $58 million in run rate expense synergies plus another $6 million of subleasing revenue for a total of $64 million. This is net of the additional costs that we are carrying to run infrastructures in parallel as we prepare for the migration to Globex for BrokerTec and EBS. At this time, we expect to be at $110 million of annual run

rate expense synergies by the end of 2020.

- **In terms of our tax rate, last year we guided to an effective tax rate of between 24.5% and 25.5%. I mentioned in Q3 that the new US tax legislation would have a positive impact going forward. As a result, we expect our 2020 adjusted effective tax rate to be between 23% and 24%.**

- **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 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.