CME Group 3Q 2021 Earnings Introductory Script – October 27, 2021

John C. Peschier

Good morning and I hope you are all doing well. 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

Thank you all for joining us this morning. We released our executive summary this morning, which provided extensive details on the third quarter of 2021.

I have John, Sean, Derek, Sunil and Julie Winkler on the call this morning, and we all look forward to addressing any questions you have.

Before I begin, in addition to John who will discuss the financial results, I'm going to have Sean and Derek make some comments. With all the recent news associated with interest rates and energy, I thought it was important that they present this morning. With that…we delivered solid volume during the third quarter of this year, as we averaged 17.8 million contracts per day, which was up 14 percent versus third-quarter last year. We saw year-over-year strength in our rates and energy businesses and saw significant options growth of 45 percent during Q3. Rates average daily volume rose 53 percent, including 78

percent growth in Eurodollars and 41 percent growth in Treasuries, as the expectation of future rate hikes has increased.

We continued to launch innovative new products, tools, and services to support customer needs, including additions to our suite of micro-sized contracts that allow market users to customize their trading and hedging, as well as ESG-focused futures contracts that help manage climate-related risk.

In terms of specific products and services – we had two consecutive quarterly ADV records in SOFR futures in Q2 and Q3, as the market continues to manage their interest rate risk ahead of key transition deadlines. Bitcoin futures

ADV increased 170 percent compared with the third quarter last year. Ether futures are also off to a good start since their launch in the first quarter this year.

In September, we launched the derivatives industry's first-ever Sustainable Clearing service to help market participants track and report on how their hedging activities are advancing their sustainability goals.

Finally, Micro WTI and Micro Treasury Yield contracts began trading in July and August, respectively. The Micro WTI contract represents the most successful commodity product launch in our history, with over 1 million contracts traded within the first 20 days and a total of 4.3 million contracts traded since its July 12th launch. Most importantly, this innovative new contract is attracting new customers to our Energy market, as evidenced by the fact

that almost 10,000 Micro WTI market participants have not traded any other CME Group Crude Oil product in 2021.

In the third quarter, non-U.S. ADV was up 13 percent to 5 million contracts per day. We saw:

- **15 percent growth in Europe,**
- **8 percent growth in Asia,**
- **32 percent growth in Latin America, and**
- **10 percent growth in the US.**

Also, during the quarter, we completed our joint venture with IHS Markit and together launched OSTTRA, a leading provider of progressive post-trade solutions for the global OTC markets across interest rates, equity, FX and credit asset classes.

Turning to Q4, we have had a strong start so far in October, averaging more than 20 million contracts which is an increase of 35 percent month-to-date compared to the same point in October last year. Interest rates and energy are up double digits, with rates up 90%.

With that, let me turn it over to Sean.

Sean:

The Financials unit saw significant developments in the third quarter, particularly regarding SOFR, the overall rates market and our crypto business.

Our SOFR futures saw average daily volume grow to 124,000 contracts per day in Q3, up over 180 percent year-over-year and our open interest grew to over 1 million contracts, up 140 percent year-over-year. Additionally, in the month of October, we are seeing average daily volume of 227,000 SOFR futures contracts and open interest of 1.2 million contracts. Over the last 60 days, our SOFR futures ADV made up over 78 percent of global SOFR futures volumes and our open interest represents approximately 95 percent.

Further, on July 29th, the Alternative Reference Rates Committee of the Federal Reserve endorsed CME's 1-month, 3-month and 6-month Term SOFR rates, and on September 19th CME began publishing a 12-month Term SOFR rate as well. Demand for access to our Term SOFR rate is very high, as we have already executed more than 100 Term SOFR licenses to market participants and we are currently working with an additional 300 firms who are interested in licensing it.

Our fallbacks for Eurodollar futures and options have also been a very strong success since we finalized our rule book back on March 29th. SOFR linked open interest includes SOFR futures as well as Eurodollar futures and options that reference a LIBOR Rate which will be set after June 30th, 2023. Those contracts have grown from 11.8 million open interest on March 29th to 16.3 million open interest as of October 25th, up 38 percent. Further, the average daily volume of our SOFR linked futures and options in Q3 was 1.6 million contracts, representing 52 percent of CME's total short-term interest rate ADV.

In addition, our long-held view regarding the rates market environment continues to gain veracity. Using CME's FedWatch tool, we can see the market is now pricing in a 60 percent chance of tightening by the June 2022 FOMC meeting, up from 17 percent just one month ago. Our FedWatch tool also now indicates an 87 percent chance of at least two Fed tightenings by the December 2022 FOMC meeting. In Q3, the improving rates environment led to 53 percent growth in our interest rates ADV versus Q3 2020. None the less, rate volatility, while higher in Q3 2021 than in recent quarters, remained historically quite low. For example, the eighth quarterly Eurodollar future achieved just a 37th percentile volatility in Q3 versus a history going back to

2007 and our 10-Year Note futures only achieved a 25th percentile volatility ranking, showing that current volatility, even in Q3, was very low.

Regarding CME Group's crypto offering, first, let me say that the recent approval of ETFs based on CME Bitcoin futures is not only an important milestone for our futures contracts but also a positive development for the broader bitcoin ecosystem. This is a direct reflection of the strong growth and client demand for exposure to bitcoin via CME's transparent, deeply liquid and regulated cryptocurrency futures contracts. The launch of ETFs based on CME's Bitcoin futures is validation from the industry of what we've known for some time – that CME Bitcoin futures are the leading source of bitcoin price discovery for the industry.

Two new Bitcoin ETFs were just launched last week, both of which are based on CME's Bitcoin futures. On the back of those launches, our Bitcoin futures October ADV has risen to over 12,000 contracts, or over 60,000 equivalent bitcoin, worth a record $3.5 billion per day, up 57 percent over September. Additionally, average open interest in our Bitcoin futures has grown to a record 17,433, up 70 percent over September. Our Micro Bitcoin futures volume is also up 33 percent month-over-month and average open interest up 97 percent.

I'll now turn it over to Derek -

Derek:

We have seen a strong return of activity in our global Energy business in the second half of this year, with both Crude Oil and Natural Gas prices hitting multi-year highs. Overall, this has helped our global Energy business to deliver ADV growth of 18 percent in Q3, led by Energy Options up 26 percent year-on-year. WTI futures prices reached the $84 a barrel mark this month for the first time since 2014, as OPEC maintained caution on production increases and as U.S. Shale steadily recovers from 2020's declines. Prices were further boosted from returning global demand as economies reopen. In the U.S., gasoline consumption reached 10 million barrels per day in July, marking an all-time monthly high. Activity in WTI Crude Oil futures saw a 26 percent jump in ADV in Q3 to 990,000 contracts, with WTI options ADV jumping 45 percent to 129,000 contracts. This helped us to deliver strong growth in our refined products portfolio as well, with our Gasoline product volume up 20 percent to 196,000 contracts and our Heating Oil products volume up 10 percent to 154,000 contracts.

This has helped set the stage for the significant success that we have delivered with our Micro WTI futures contract. Launched on July 12th of this year, as Terry mentioned, we surpassed 1 million contracts traded in the first 20 trading days, and we have already traded more than 4.3 million contracts since launch. Most importantly, this innovative new contract is attracting brand new global customers to our Energy market, as evidenced by the fact that almost 10,000 Micro WTI market customers have not traded any other CME Group Crude Oil product in 2021. These new customers come from 118 different countries and represent over 50 percent of our Micro WTI customers, so this has been a significant source of new client acquisition for us.

At the same time, we have also seen the Natural Gas market experience the highest price levels in over 13 years, with U.S. Henry Hub futures hitting a high of $6.45 this month, more than tripling in price from the Covid-driven March 2020 lows. The resulting increase in volatility has boosted our Henry Hub futures business, with September ADV of 496,000, up 11 percent year-on-year. Henry Hub Options were particularly strong in Q3, with ADV up 18 percent to 124,000, achieving our best months of August and September. Participation has been strong from our commercial customers, and we have seen our Natural Gas futures and options open interest jump to 6.2 million contracts in September, which is the highest level we have seen since January 2018.

With that, I'll turn it over to John to discuss the financial results.

John Pietrowicz

Thanks Derek.

During the third quarter, CME generated more than $1.1 billion in revenue with average daily volume up 14 percent compared to the same period last year. Expenses were very carefully managed and on an adjusted basis were $412 million for the quarter and $355 million excluding license fees. CME had an adjusted effective tax rate of 23.3 percent, which resulted in an adjusted diluted EPS of $1.60 up 16 percent from the third quarter last year.

Capital expenditures for the quarter were approximately $33 million. CME paid out more than $300 million of dividends during the third quarter and cash at the end of the quarter was approximately $1.6 billion.

At the start of September, CME and IHS Markit launched OSTTRA, our post-trade services joint venture. As a result, CME will no longer be recording revenue and expenses associated with our post-trade businesses but will be recording our share of the joint venture earnings in the “equity in net gains of unconsolidated subsidiaries” line of our income statement. For the month of September, CME would have recorded approximately $22 million in revenue and $11 million in expenses but instead recorded approximately $8 million in our share of the adjusted earnings of the joint venture. When you take into consideration tax implications and providing support services for the joint venture, there was essentially no impact to our overall earnings.

Turning to guidance, we now expect total adjusted operating expenses for 2021, excluding license fees and reflecting the impact of our joint venture, to come in **at approximately $1.5 billion**. Down about $30 million from our guidance at the start of the year. All other guidance remains unchanged.

Finally, we are very pleased to say we achieved our planned $200 million in cumulative run-rate expense synergies related to the NEX acquisition this quarter.

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.

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 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.