CME Group 3Q 2020 Earnings Introductory Script – October 28, 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

- **Thank you all for joining us today. I wish all the best to you and your families during this challenging situation for many around the world.**

- **My comments today will be very brief, so we can spend the majority of our time directly addressing your questions. We released our executive commentary this morning which provided extensive details on the third quarter. John, Sean, Derek, and Julie Winkler have joined me this morning and we look forward to addressing your questions.**

- We continue to see historically low levels of volatility in several of our asset classes which began in the second quarter. During the third quarter we averaged 15.6 million contracts per day, down from 17.6 million contracts per day in the second quarter.

- We are fortunate to have a broad product portfolio. During the third quarter we saw:
  - strength in our equity business,
  - our higher RPC Metals and agricultural products delivered volume growth in Q3,
  - and FX volume recovered and averaged 100,000 contracts per day higher in Q3 than Q2

- **Our market data business during the quarter had exceptional results with revenue of $139 million, the highest quarter in our history. We continued to launch innovative new products, and we have prepared for the cutover of BrokerTec onto Globex <u>later this quarter</u>. We remain committed to achieving capital and operational efficiencies for our clients.**

- **Clearly, the lack of volatility is impacting <u>two of our</u> largest asset classes – rates and energy. That is the current reality, but not a permanent one. We have intensified our efforts on the expense side which is something we can control. As John will discuss in a moment, we are reducing our 2020 expense guidance by $70 million from the initial guidance we provided in February. Realizing we are in a tough environment, we also plan to deliver very strong expense**

management going into 2021.

- **With that short intro – let me turn the call over to John to talk about the financial results.**

John

- Thank you, Terry.

- With our strong expense discipline and the remote working environment, we finished the third quarter with adjusted operating expenses, excluding license fees, of $386 million down 6% compared to the same period last year and down 5.5% year-to-date. We are extremely focused on actively managing our costs as Terry mentioned.   This expense level reflects an entire company effort to ensure that we are spending as efficiently as possible in the face of a tough operating environment.

- Our adjusted diluted EPS for the quarter is $1.38 and it is $5.34 through three quarters which is up slightly from last year.

- Based on our outlook for the rest of the year, our guidance for adjusted operating expenses for 2020, excluding license fees, is being reduced to $1.575 billion, down from $1.645 billion which is the midpoint of our initial guidance at the start of the year, and down $20 million from our full-year estimate we had updated last quarter.

- Finally, we are beginning our budgeting process for 2021 and we expect the intense expense focus to carry over into next year. We recently let our employees know that we are deferring promotions for now, freezing wages going into next year and we are looking at other opportunities to reduce discretionary spending.

- 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.

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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, 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 policy 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 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 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, 2019, as filed with the Securities and Exchange Commission ("SEC") on February 22, 2020, under the caption "Risk Factors" and in Item 1A of our Quarterly Report on Form 10-Q for the quarter ended June 30, 2020 as filed with the SEC on August 5, 2020.