CME Group 3Q 2024 Earnings Introductory Script

October 23, 2024

<u>Adam Minick</u>

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 third 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 third-quarter financial results. In addition to Lynne, we have other members of our management team present to answer questions after the prepared remarks.

Our record-breaking performance in the third quarter demonstrated the continued growing need for risk management globally. The third quarter average daily volume of 28.3 million contracts was the highest quarterly ADV in CME Group's history and increased 27% compared to the same period last year. This strong growth was broad-based, we achieved year-over-year growth in both volume and open interest across every asset class for the second consecutive quarter. In aggregate, our financial products volume grew by 28% and our commodities sector volumes grew by 20%.

This record volume was aided by the effectiveness of our volume tiers, including the 36% year over year growth in our interest rate complex to 14.9 million contracts a day, with all time record volume levels for both SOFR futures and Treasuries. We achieved this growth without lowering any fees or introducing any new incentive programs for these products. The lower RPC was driven by increased trading volume and our focus on tiering allowed for incremental earnings growth given the operating leverage in our model.

Our SOFR complex traded over 5.9 million contracts per day in the quarter and 6.9 million per day in September, all while seeing the customer network broaden with large open interest holders reaching a new record high in September.

As you know, we often hear the view that a rising Fed rate environment is best for CME's interest rate volumes. However, over the last year, there have been no Fed rate hikes and one rate cut, and our interest rate complex grew 17% over the prior year which had 6 rate hikes totaling 2.25%. Opposing views of potential and actual Fed rate changes combined with ongoing high levels of issuance and deficit financing should continue to provide tailwinds for interest rates trading. The uncertainty around the U.S. election and geopolitical events around the world also contribute to a growing need for liquid and efficient markets to manage these risks in interest rates and across asset classes.

Q3 was also a record quarter for our international business, where average daily volume reached 8.4 million contracts, up 29% versus last year. This was led by a record 6.2 million average daily volume from EMEA, which was up 30%, and 1.9 million contracts per day in APAC, up

28%. The record international volume was driven by growth in all six asset classes in both EMEA and APAC, with the highest volumes coming from interest rate and equity products.

In addition to the impressive volume results, we delivered record financial results for the second consecutive quarter. I'll now turn the call over to Lynne to review these results in more detail.

Lynne Fitzpatrick

Thanks Terry and thank you all for joining us this morning. CME Group set all time records for quarterly revenue, net income and earnings per share in the second quarter this year and immediately surpassed each of those records this quarter. Starting with the highest ever quarterly revenue at nearly $1.6 billion, up 18% from the third-quarter in 2023. Clearing and transaction fee revenue increased by 20% on our record quarterly volume. Market data revenue of $178 million increased 6% from the same quarter last year and Other Revenue increased 29% to over $109 million.

Our strong cost discipline led to adjusted expenses of $489 million for the quarter and $391 million, excluding license fees. The resulting operating income of approximately $1.1 billion set a new quarterly record. Our adjusted operating margin of 69.1% was up 260 basis points from 66.5% in the same period last year. CME Group had an adjusted effective tax rate of 22.3%. Terry talked about the strength of our International business. The strong growth coming from outside the US has resulted in a lower effective tax rate. We expect this trend to continue in Q4 and we are lowering our tax rate guidance for the year to a range of 22.5% to 23.0% as a result.

Driven by the strong revenue growth and operating margin levels, we delivered the highest quarterly adjusted net income and earnings per share attributable to CME Group in our history at $977 million and $2.68 per share, respectively, both up 19% from the third quarter last year. This represents an adjusted net income margin for the quarter of 61.7%.

Capital expenditures for the third quarter were approximately $30 million and cash at the end of the period was approximately $2.6 billion.

Our continued product innovation, new customer acquisition, and deep liquid markets across the six major asset classes has led to a consistent, higher, level of demand for our products. CME Group's daily trading volume surpassed 25 million contracts on 55% of the trading days in the first three quarters of 2024, versus 35% of the days in the same period of 2023. Also, each of the last six months were monthly volume records helping us deliver our best quarterly financial results in Q2 which were immediately surpassed by new records this quarter. We are very proud of the team for their efforts to provide our clients with the technology and products they need for risk management while driving earnings growth for our shareholders.

We'd now like to open 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 messaging 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 LLC) 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".*