CME Group 4Q 2021 Earnings Introductory Script

February 9, 2022

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 commentary earlier today, which provided extensive details on the fourth 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 as we did last quarter.

Trading activity was strong during the fourth quarter, with average daily volume of 20.5 million contracts per day, up 26 percent versus fourth-quarter last year and up 15 percent sequentially. We also had 26 percent ADV growth during the month of December versus the prior year.

We saw tremendous year-over-year strength in our Interest Rates business, which was up 56 percent, including record quarterly SOFR futures ADV, as we continue to assist clients with the transition from LIBOR. Equity Index ADV increased 15 percent and Energy ADV rose 16 percent compared to fourth-quarter last year. In addition, options ADV grew 58 percent to 3.7 million contracts. This strong finish to the year supported record annual ADV in total of 19.6 million contracts, up

3 percent from last year, as well as record annual non-U.S. ADV of 5.5 million contracts, up 4 percent compared with 2020.

In the fourth quarter, non-U.S. ADV was up 24 percent to 5.7 million contracts per day. We saw:

- 26 percent growth in Europe,
- 15 percent growth in Asia, and
- 45 percent growth in Latin America

As always, we continued to launch innovative new products, tools, and services to support customer needs. We executed on targeted sales campaigns for recent launches during Q4. Micro Ether futures were launched in early December and surpassed 100,000 contracts within the first two weeks. We also began trading ‘E-mini Russell 2000 Monday and Wednesday Weekly’ options contracts, as demand for more short-dated options continues to grow. Additionally, we recently announced our plans to launch a new 20-Year U.S. Treasury Bond future in early March 2022, pending regulatory review. Over the full-year 2021, new products launched since 2010 generated approximately $500 million in revenue, up 30 percent from 2020.

And finally, in line with our long-standing history of innovation, we are extremely excited about having signed our 10-year strategic partnership deal with Google Cloud. This will allow us to transform derivatives markets through cloud adoption, and co-innovate to deliver expanded access, new products, and more efficiencies for all market participants.

As far as activity to date in 2022 goes, we averaged 24.6 million contracts per day in January, up 28 percent compared with January 2021. Equity Index and Interest Rates continue to lead the way with year-over-year growth of 56 percent and 33 percent respectively. Options ADV growth was also strong, up 39 percent.

With that, let me turn it over to Sean, and then to Derek, to give you a little more color in each of their areas.

Sean Tully

Thank you, Terry.

While volatility across Financials asset classes remained well below normal historical levels in 2021, Interest Rates and Equity Index volatilities were around the historical mean in Q4, and the FX market remained below the 20th percentile. In that more normal environment in Q4, as Terry mentioned, we saw strong Rates and Equity volumes. We saw Rates options up 94 percent year- over-year, Equity Index options up 68 percent, and FX options up 18 percent. In terms of our customer penetration, every Financials asset class saw an all-time high average annual number of large open interest holders in 2021, as more customers used more of our financial products than ever before.

In addition, we are pleased with our continued progress in new financial products, new product adoption and strong commercial results from these new products. On January 24th, new financial products achieved a volume of over 10.5 million contracts, making up over 30 percent of the entire exchange volume that day. Among our new products, we achieved record ADV in our Micro Equity E-minis in January of 3.7 million contracts, up 64 percent compared with January last year. Our newly launched Micro Ether futures achieved ADV of 21,500 contracts in January and, our Crypto futures reached a record 57,900 contracts ADV in January, up 229 percent year-over-year, and equating to $2.87 billion average daily notional traded.

With strong growth in Equity Index and Crypto futures we initiated a fee adjustment beginning on February 1st. We increased our E-mini and Micro E-mini member fees by one penny per contract and, we increased our non-member E-mini and Micro E-mini fees by a nickel per contract. Likewise, we increased our Bitcoin and our Ether futures member fees by 50 cents per contract and our non-member fees by $1.00 per contract.

We are also pleased with new product growth in our Rates business. Putting our new 20-Year U.S. Treasury Note futures announcement into perspective, our Ultra 10-Year futures achieved a new all-time high annual ADV of 372,000 contracts in 2021.

As we progress though the LIBOR transition, our SOFR futures now represent 95 percent of the average daily volume of all exchange-traded SOFR futures and 98 percent of the open interest. In January, our SOFR products grew exponentially. SOFR futures achieved 731,000 contracts ADV, up 645 percent year-over-year. On February 3rd, our SOFR futures and options achieved open interest of 3.4 million contracts, up 406 percent versus one year ago. Adding the OI from our SOFR linked contracts - which is how we refer to our Eurodollar futures and options that reference a LIBOR which will be finally set after June 30th, 2023 - to our total SOFR OI, the combined OI is currently running at 17.45 million contracts.

Regarding Term SOFR, we have licensed 600 firms across the globe and across the financial, banking, manufacturing, and other industries.

And with that I will hand it over to Derek.

Derek Sammann

Looking at our Commodities Portfolio, we drove strong 2021 results across our global benchmarks with particular strength in the fourth quarter in Energy which grew 16 percent year-on-year. In addition to hitting record Ag volumes in EMEA and Asia in 2021, we also hit a new record monthly ADV in our Micro WTI contract in November and set multiple records in our Industrial Metals portfolio of Copper, Aluminum and Steel. On the client side, we continue to focus on expanding Commercial customer participation and in 2021 these end-user OI holders were our best-performing client segment overall.

Additionally, to better serve our clients' accelerating focus on environmental and sustainability concerns and the emerging risk management needs, I am pleased to announce that we have created a new "Environmental Products" portfolio. This portfolio aggregates the full range of our existing and planned environmental and sustainability-linked products such as our market-leading Global Emission Offsets contracts, Biofuels such as Ethanol and other renewables, and battery metals like Cobalt and Lithium, and will serve as a catalyst for our continued expansion across asset classes in this rapidly evolving space. Customer demand is increasing for carbon and environmental products that facilitate broad participation and risk management across diverse industries and geographic limits. Our focus is on building tools to effectively manage their environmental risks and achieve their goals through the energy transition.

Turning to our global Options business, we delivered strong results again in 2021, up 6 percent versus 2020, finishing the year with a robust fourth quarter, up 58 percent as Terry had mentioned. Our outstanding fourth-quarter results were led by strength in our Interest Rates, Equity Index and FX business lines as macroeconomic uncertainties and rate rise expectations filtered across global financial markets. Our Options growth was again driven by outsized growth outside the US, led by APAC up 23 percent and EMEA up 4 percent. Most importantly, our fastest growing Options client segments were Commercials and Buy Side customers which reflects our consistent focus on attracting end-user customers to our markets. Our overall Options growth was accelerated by the continued global adoption of our electronic front-end CME Direct which hit a new record number of active users in 2021 and drove a record for Globex revenues on this platform. CME Direct continues to be a key driver of our non-US growth, with the average monthly users trading or booking via the platform in Q4 2021 increasing 50 percent in LatAm, 18 percent in EMEA and 10 percent in APAC vs Q4 2020.

Finally, turning to our International business, having just taken over responsibility for it in November, I'm excited to optimize this team's structure and mandate to ensure that we can continue to deliver outsized growth outside the US to unlock the next leg of our global growth story. As Terry shared, we reached record annual non-US ADV in 2021, which was bolstered by our strongest fourth-quarter non-US ADV ever of 5.7 million contracts. Given our success in finding and onboarding new global clients, we've specifically invested in new client-facing headcount in Asia to further strengthen our on-the-ground commercial resources which will further accelerate this growth. Overall, we are very pleased with the continued success of our non-US business, and with 2021 revenues in excess of $1.1 billion, I look forward to generating continued outsized growth in both Futures and Options as we continue to add resources to this critical part of our growth story.

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

John Pietrowicz

Thanks Derek.

During the fourth quarter, CME generated more than $1.1 billion in revenue with average daily volume up 26 percent compared to the same period last year. If you adjust for the impact of the creation of OSTTRA, our joint venture with IHS Markit, our revenue would have been up approximately 11 percent for the quarter. Market Data revenue was up 2 percent from last year to $142 million and up 6 percent for the full year of 2021.

Expenses were very carefully managed and on an adjusted basis were $429 million for the quarter and $369 million excluding license fees. For the year, CME had adjusted operating expenses, excluding license fees, of $1.468 billion, which was $32 million below our revised guidance of $1.5 billion.

CME had an adjusted effective tax rate of 22.1 percent, which resulted in an adjusted net income attributable to CME Group of $607.5 million, up 22 percent from the fourth quarter last year, and an adjusted EPS attributable to common shareholders of $1.66.

The issuance of the Class G non-voting shares in November, in conjunction with our partnership with Google, impacted the calculation of EPS attributable to common shares. The Class G non-voting shares have similar rights to common stock, with the exception of voting rights, and are convertible to common shares on a one-to-one basis. Had the Class G shares been converted to common shares at the date of issuance, the adjusted EPS attributable to common shareholders would have been $1.68. We expect the EPS for the Class G and common shareholders to be the same going forward. Please refer to the Financial Results page of the executive commentary for further information.

Capital expenditures for fourth quarter were approximately $29 million. CME declared $2.5 billion of dividends during 2021, including the annual variable dividend of $1.2 billion, and cash at the end of the quarter was approximately $2.9 billion.

Turning to guidance for 2022, we expect total adjusted operating expenses excluding license fees, to be approximately $1.45 billion. We are expecting an improving business environment and our guidance reflects that expectation. In addition to our expense guidance, we expect the investment related to the Google partnership and the move to their cloud platform to be in the range of $25 million to $30 million. A portion of these costs may be capitalized and we will update the guidance as the engineering and migration plans finalize.

Capital expenditures, net of leasehold improvement allowances, are expected to be approximately $150 million, and the adjusted effective tax rate should come in between 22.5 percent and 23.5 percent.

With that 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 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; 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 our joint venture with IHS Markit and our partnership with Google Cloud; the uncertainty related to the transition from LIBOR; 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.