CME Group 2Q 2022 Earnings Introductory Script

July 27, 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 second quarter of 2022.

I have John, Lynne, Sean, Derek, Sunil and Julie Winkler on the call this morning. I will start and then John will provide some comments before we open the call for your questions.

Trading activity during the second quarter increased 25 percent to an average daily volume of 23 million contracts per day. This strong growth was driven primarily by the Financials asset classes with the second highest quarterly ADV on record for our Equity Index products, which were up 57 percent year-over-year, and included record Micro E-mini S&P 500 futures ADV of 1.4 million contracts.

In addition, both Interest Rates and FX average daily volumes increased 24 percent compared with the second quarter last year.

Total options ADV increased 23 percent compared with Q2 last year to 3.9 million contracts, driven in part by 92 percent growth in Equity Index options. Record E-mini Nasdaq 100 options ADV grew 136 percent, and E-mini S&P

500 options ADV was the second highest quarterly ADV on record at 1.1 million contracts.

Furthermore, options activity outside the U.S. was also robust with non-U.S. options ADV in Metals growing 60 percent year-over-year, Equity Index up 44 percent, and Energy was up 28 percent.

In Q2, total non-U.S. average daily volume grew 21 percent to 6.3 million contracts, also driven by the Financial product lines. We saw:

- 15 percent growth in Europe,
- 36 percent growth in Asia, and
- 40 percent growth in Latin America.

Turning to our ongoing focus on the industry's Libor to SOFR transition, CME's SOFR futures reached record quarterly ADV of 1.6 million contracts and record open interest on June 30th of 6.4 million contracts. During the quarter, SOFR futures ADV represented 99 percent of Eurodollar futures. In addition, trading in SOFR options skyrocketed in June, with a record number of participants. Our market-wide fee waiver was instrumental in moving this critical liquidity into the SOFR options markets.

SOFR options ADV represented 46 percent of Eurodollar options activity for the month of June, having also reached a weekly high of 68 percent and daily high of 111 percent of Eurodollar options activity during the month.

In terms of new products, customer demand and the ever-apparent need for risk management across our global products continues to lead to new product launch opportunities. During the quarter, we continued to build out our micro-sized contract suite with the launches of Micro Copper futures, as well as Options on our popular Micro WTI Crude Oil futures.

Within our ESG-focused portfolio, we announced the upcoming launch of two additional voluntary carbon emissions offsets contracts, adding to a suite of products that are already meeting a significant market need today. A record 90 plus number of new participants having traded one of the existing carbon emissions offset products since launch.

Other Q2 product launches included Canadian Wheat futures as well as options on our physically delivered Aluminum. Additionally, we announced our plans to launch the first-ever TBA futures for the mortgage-backed securities market as well as event contracts later this year.

I mentioned at the time of Google's $1.0 billion investment in CME Group, that we would look for opportunities to use this capital to grow our business. During the quarter, we invested approximately $410 million in our S&P Dow Jones Indices joint venture. This funded our portion of the acquisition of the IHS Markit indices business, which includes leading fixed income and credit indices such as iBoxx, iTraxx and CDX.

The shift from active investing to indexing was growing in 2012 when we launched the joint venture, and that momentum has only continued to strengthen since that time. Our portion of the earnings from the index joint venture have more than tripled from the $75 million earned for the full year in 2013, which was the first full year post formation.

Looking ahead, with the addition of the IHS Markit fixed income and credit indices, the joint venture is well-positioned to continue to innovate and grow across an even wider set of products and services that will serve investors all over the world.

As we described last quarter, several macro-economic factors continue to contribute to an extremely complex market landscape, and the importance of risk management is accelerating. Our team continues to execute on our strategic priorities to empower market participants worldwide to manage risk and capture opportunities.

With that, let me turn it over to John to provide the financial highlights.

John Pietrowicz

Thanks Terry

During the second quarter, CME generated approximately $1.24 billion in revenue up more than 5 percent vs. Q2 last year, driven by a 25 percent increase in futures trading activity. Our revenue was up over 11 percent when adjusting for the impacts of the formation of OSTTRA, our post trade joint venture with S&P Global that we formed in the 4th quarter of last year. Market Data revenue was again a record during the quarter, up 4 percent compared to a year ago to $152 million. We continue to see a strong need for our globally relevant product set and our risk management expertise.

Expenses were very carefully managed and on an adjusted basis were $442 million for the quarter and $359 million excluding license fees. We continue to progress with our Google partnership. We are tracking to our internal objectives and are well underway to building the foundation for our move to the cloud. Year-to-date we have spent approximately $14 million in cash costs towards that effort.

CME had an adjusted effective tax rate of 23.3 percent, which resulted in an adjusted net income of $717 million, up over 22 percent from the second quarter last year, and an adjusted EPS attributable to common shareholders of $1.97.

For the first half of the year, CME had an adjusted EPS of $4.08 making the first half of 2022 the best six-month results in CME history.

Capital expenditures for the second quarter were approximately $21 million. CME paid out just over $1.9 billion of dividends so far this year and cash at the end of the quarter was approximately $2 billion.

In summary, the team at CME Group continues to execute across the business delivering to our clients valuable risk management tools in this time of growing uncertainty.

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 press release 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 OSTTRA joint venture with IHS Markit (now a part of S&P Global) and our partnership with Google Cloud; 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 other recent periodic filings, including our Annual Report on Form 10-K for the year ended December 31, 2021, as filed with the Securities and Exchange Commission ("SEC") on February 25, 2022, under the caption "Risk Factors".