CME Group 2Q 2024 Earnings Introductory Script

July 24, 2024

Adam Minick

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

Our strong second-quarter results again reinforce how the need for risk management continues to grow, and CME Group is where market participants turn to manage that risk across the most diverse set of benchmark products.

We delivered record quarterly revenue, driven by year-over-year growth in **both** average daily volume and open interest across every asset class This is the first quarter with this broad based growth since 2010.

Second-quarter ADV of 25.9 million contracts increased 14% and represented the highest Q2 ADV in our history, including a quarterly record for non-U.S. ADV of 7.8 million contracts, up 23% year-over-year. This robust activity drove record adjusted quarterly earnings which Lynne will detail shortly.

We delivered 16% year-over-year ADV growth across all our physical commodities products to 5.2 million contracts, which included double-digit year-over-year growth for both Energy and Metals products, at 16% and 42% growth, respectively.

Importantly, our overall Commodities portfolio has generated record revenue year-to-date in 2024, up 16% versus the first half last year to over $836 million, representing 34% of our clearing and transaction fees revenue in the first half of the year.

Turning to Financials, total ADV across the complex increased 13% from Q2 last year, including record Treasury ADV of 8.2 million contracts, up 36%. Our U.S. Treasuries set a new daily volume record of 34.4 million contracts during the quarter on May 28th. The continuing high levels of issuance and deficit financing are tailwinds, even in the absence of Fed rate changes.

Also, Foreign Exchange second-quarter ADV grew 20% versus Q2 last year. In addition to our impressive quarterly volume results, we continue to provide unmatched capital efficiencies for our customers.

Within Interest Rates alone, these efficiencies result in margin savings of nearly $20 billion per day for our clients through the unique combination of offsets within our rates futures and options franchise. Our one pot margining with CME cleared swaps and cross margin offsets versus cash treasuries, offers clients the efficiencies which no one else has the regulatory approval to provide. Coupled with the 13 million interest rate futures and options traded at our exchanges on a daily basis, the liquidity, depth of book and capital savings in our Interest Rates complex are unparalleled.

While we are pleased with our record results and our ability to consistently deliver quarterly earnings growth, we continue to innovate with an eye towards the long-term needs of our customers. Near the end of the quarter, we were particularly excited to announce a significant step forward in our partnership with Google Cloud. We plan to build a new private Google Cloud region, and a co-location facility, in Aurora, Illinois, designed to support global trading of our futures and options markets in the cloud with next-generation cloud technology, ultra-low latency networking and high-performance computing.

This next generation platform will build on the benefits we provide our clients today through a broader range of connectivity options and faster product development. In addition to our state of the art trading infrastructure, our clients will also be able to utilize Google's artificial intelligence and data capabilities to help develop, test and implement trading strategies to manage their risk more efficiently.

Finally, as we begin the second half of the year, looking at the uncertainty around the U.S. political landscape with the disparity of opinions and policies, the need to mitigate and manage risk has never been more paramount. On top of that, the ongoing uncertainty in the Middle East, coupled with the unrest between Russia and Ukraine, are continuing issues with no end in sight – that markets need to manage. These are just a few of the geopolitical events that highlight the need for our risk management products.

We look forward to working with our clients to make sure they have the most liquid and efficient markets to manage these issues, and all the others we encounter in this world. I'll now turn the call over to Lynne to review our Q2 financial results.

Lynne Fitzpatrick

Thanks Terry and thank you all for joining us this morning. CME Group delivered the strongest earnings in our history this quarter. Starting with the highest ever quarterly revenue at over $1.5 billion, up 13% from the second-quarter in 2023. Quarterly revenue for our physical commodities asset classes grew 17% year-over-year and represented over one-third of clearing and transaction fees in the quarter at $444 million. Market data revenue of $175 million increased 7% from the same quarter last year and Other Revenue increased over 35% to $107 million.

Continued strong cost discipline led to adjusted expenses of $474 million for the quarter and $388 million, excluding license fees. Our adjusted operating margin for the quarter was 69.1%, up from 66.8% in the same period last year. CME Group had an adjusted effective tax rate of 23.1%. Driven by the robust demand for our risk management products, we delivered the highest quarterly adjusted net income and earnings per share attributable to CME Group in our history at $932 million and $2.56 per share, respectively, both up 11% from the second quarter last year. This represents an adjusted net income margin for the quarter of 61%.

Capital expenditures for the second quarter were approximately $17 million and cash at the end of the period was approximately $2.0 billion. CME Group paid dividends during the quarter of $419 million, and we have returned over $25 billion to shareholders in the form of dividends since implementing the variable dividend policy in early 2012.

A consistent, higher, level of demand for our products continued in the second quarter, evidenced by 52% of our trading days being above 25 million contracts in the first half of this year, compared to 34% in the first half of 2023. In addition, four of the first six months this year set all time volume records including all three months this quarter. We are very proud of the team for their efforts to efficiently run the business, driving earnings growth for our shareholders, while also focusing on the future and providing our clients with the risk management products and capital efficiencies they need as our industry continues to evolve.

We'd now like to open the call for your questions.

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; 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 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 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".*