CME Group 4Q 2020 Earnings Introductory Script – February 10, 2021

John C. Peschier

Good morning and thank you all for joining us today. 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 Chairman & CEO

Thank you, John. Thank you all for joining us this morning. Our comments will be brief so we can get to your questions. I hope you and your families are all staying safe and healthy. We released our executive summary this morning, which provided extensive details on the fourth quarter and 2020. I have John, Sean, Derek, Sunil and Julie Winkler with me this morning, and we all look forward to addressing any questions you have.

2020 was a challenge with low volatility in several asset classes including the front end of the rates curve and in our WTI contract for much of the year. We did see some very encouraging signs within some of our higher rate per contract products. Also during 2020, metals had its fifth consecutive year of record annual volume and is off to a strong start in 2021. We saw very strong activity in agricultural commodities in the fourth quarter and they continue to rise in the first month of this year, up 36% vs. last year. Soybean futures had its second-highest quarterly ADV, including record volume out of both Europe and Asia.

After the extreme volatility in the first quarter of 2020 as the pandemic began, the total volume came in at 15.6 million contracts per day in the third quarter and jumped to 16.2 million in Q4. During this entire time, we have remained heavily engaged with our global customers. During 2020, our volume from clients outside the United States grew by 7 percent, reflecting the global relevance of our markets. I am encouraged by the January 2021 volume, which came in at more than 19 million contracts per day.

We are very pleased with the progress we made integrating the NEX business during 2020, including back-office migrations to support finance and HR systems and the building of an integrated global sales team. Last week, we announced that Brokertec has migrated US Treasuries benchmark trading and EU government bond and repo markets onto Globex. With BrokerTec's dealer-to-dealer platform now a fully integrated part of CME Globex, clients have an enhanced suite of government bond trading offerings across listed derivatives, cash and repo markets on a common platform allowing greater operational and technological efficiencies when managing risk across cash and futures. We remain excited about the migration of EBS onto Globex by year-end and the ability to provide further efficiencies to our global customers in the FX market.

During 2020 and the first quarter of this year, we have continued to innovate with several new products. We will begin trading global emission offset contracts referred to as GEO futures on March 1st, and we just launched our new Ether futures earlier this week. We continue to work closely with our global customer base on solutions to help them manage their risks. These new products build on the globally relevant products we have delivered recently including:

- SOFR futures
- E-mini S&P ESG futures
- the South American Soybean contract
- Cobalt futures
- Options on our popular Bitcoin futures , and
- The popular micro products across several of our asset classes.

With that let me turn it over to John, who will discuss the financial results.

John Pietrowicz

Thanks, Terry. Throughout 2020, we navigated the difficult operating environment, executed on the integration with Nex, launched new and innovative products and actively managed our expenses. For the year, we delivered $4.9 billion in revenue, up slightly from the prior year, and with a strong focus on expenses, we achieved $6.72 in adjusted diluted EPS.

During the year, we announced our annual variable dividend of $2.50 per share, and we recently announced a regular dividend of 90¢ per share for the first quarter of 2021, a 6% increase compared to the first quarter last year.

In terms of fourth quarter revenue, our average rate per contract across the product areas were fairly stable with our micro contracts continuing to perform well across several asset classes. Market data revenue was very strong with an all-time quarterly high of $140M and was up over 7% compared to Q4 last year.

We were intensely focused on expense management throughout the year. At the beginning of 2020, we provided guidance for adjusted operating expenses, excluding license fees, of between $1.64 and $1.65 billion. For the year, we came in approximately $90 million below the midpoint of that range and $80 million below 2019 levels at $1.557 billion.

In terms of synergies, we had initially targeted $110 million in run rate synergies by the end of 2020 related to the NEX acquisition. By year-end, we had exceeded that target and achieved a total of $140 million in synergies. This is net of the additional costs that we are carrying to run parallel infrastructures as we continue to work on the migrations to Globex. We remain committed to our target of $200 million of annual run rate synergies by the end of 2021.

Turning to guidance - For 2021, we currently expect full-year adjusted operating expenses, excluding license fees, to increase slightly from the already low 2020 levels to $1.575 billion. For capital expenditures, excluding one-time integration costs and net of leasehold improvement allowances, we expect to be in the range of $180 million to $190 million. In addition, we expect our 2021 adjusted effective tax rate to be between 23.2% and 24.2%.

Finally, we are very excited about the recently announced joint venture with IHS Market and the opportunities that it will provide our clients and our shareholders. The JV will be a leader in trade processing and risk mitigation services that offers the combined clients complementary services across the global OTC marketplace in interest rate, FX, equity and credit asset classes. We don’t anticipate any material change to earnings as a result of the JV. We will provide more information when the transaction closes.

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 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 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 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.