

## **CME Group – Q415 Prepared Remarks – Feb 5, 2016**

### **Phupinder Gill**

- ◆ Thank you Mr. Peschier, and thank you all for joining us. I am proud of our colleagues' hard work and the resulting performance during a challenging year for the financial services space. In 2015, we delivered product and technology innovation in multiple ways, and we also reduced costs by driving efficiency throughout the organization while improving our agility.
  
- ◆ We set multiple volume and revenue records last year, with particular strength in energy and agricultural products. In terms of volumes, we captured market share during the year across multiple products. In our non-transaction related business we had double digit growth within both market data and our portion of the S&P Dow index business. Those two line items make up approximately 25 percent of our pretax income.
  
- ◆ We have consistently expanded our global participation, and we had a record level of non US volume and revenue during the year. During Q4, non US trading volume growth outperformed the US, which has been a consistent trend. Electronic trading volume from outside the US increased by 7 percent in 2015.
  
- ◆ The electronifications of our options has been an important part of our success as well. In 2015, our electronic options volume jumped by 15 percent to more than 1.4 million contracts a day. Our revenue from electronic options has grown by more than 90 percent from 2012 to \$223 million this past year.. During this time, we have invested in system enhancements, new products and client education, which are driving significant usage of our diverse suite of option products.
  
- ◆ A couple of quick points on our financial and commodity products.
  
- ◆ Starting with rates - I am pleased to say that we were able to expand our total

interest rate futures, options and swaps revenue to more than \$900 million this year, up slightly from the past year. That compares to approximately \$600 million in 2012, prior to the swaps clearing mandate. Within fixed income markets, I would be surprised to find others that saw that same upward trend. For example, as many of you know, FICC activity is down fairly significantly during the last 3 years. We remain actively engaged with our customers discussing the advantages of liquidity and capital efficiency that we are uniquely positioned to provide.

- ◆ One recent area of significant success is the launch of our Ultra 10-Year Treasury note futures and options contract this past month. This contract provides hedging and spreading opportunities at the “true” 10-year point of the Treasury yield curve. This is the exact sweet spot where a lot of activity is clustered.
- ◆ I am happy to say that this launch has been the most successful start of a new contract in our long history of innovation, despite an uncertain and volatile trading environment which is usually a difficult time for a new product to garner any attention. With more than 140 market participants providing consistent liquidity across all regions, the Ultra 10-Year Treasury Note futures has been trading more than 20 thousand contracts a day over the last few weeks. Open Interest has increased steadily since the launch and stands at more than 50,000 contracts, demonstrating this contracts relevance to our clients. Open interest in our actively traded 10-Year Treasury Note futures contract has grown by more than 10 percent since the Ultra 10-Year Treasury Note launch to almost 3 million contracts, thereby expanding the entire interest rate complex.
- ◆ The world’s largest and most complex options market is our Eurodollar options, and total volume there was up 12 percent to almost 1 million contracts a day in 2015. The percentage of the volume on Globex increased each quarter during the year from 14 percent in Q1 up to 22 percent in Q4. Our Eurodollar options

ADV grew to more than 2.1 million contracts per day in January, and record electronic Eurodollar options averaged more than 450,000 contracts per day, tripling the volume from a year ago.

- ◆ Turning to equities, a couple of items stand out. Within options, we saw a 7 percent volume increase during the year. Also in 2015, we were very pleased to secure long-term rights to the FTSE Russell Indexes as a result of our partnership with the LSE. On January 25<sup>th</sup> we launched the FTSE emerging markets and Europe developed markets products and we are looking forward to 2017 when the Russell 2000 launches on CME, and we think there is an opportunity to increase volumes meaningfully. Finally, last quarter I mentioned we had launched Basis Trade at Index Close functionality for equity futures and S&P 500 dividend futures. Since the expansion of the so called BTIC to the US major Indices in November last year, over 132,000 contracts have been traded. This is the business that has historically been done in a bilateral way off exchange.
  
- ◆ In commodities we saw record volume in energy and agricultural products. The impact of El Nino and the potential for La Nina, along with the normal dynamics, has resulted in increased usage of our products. We are particularly pleased with our results in energy. Our total energy revenue grew by 15 percent during the year, more than twice as fast as our closest competitor. We have taken share in crude oil futures and options, natural gas futures and options, and within coal. During Q4, we were pleased to see the lifting of the 40-year ban on exporting crude outside the US. We think this bodes well for the long term position of our energy complex and also, within the metals complex, we achieved record levels of large open interest holders and we picked up volume in market share from competing exchanges in Gold, Copper and Iron Ore.
  
- ◆ Within our earnings presentation you'll find a summary slide which highlights many of the initiatives we launched during 2015 to pave the way for continued

growth on a global basis. I've gone through some of these on prior calls, so I won't go into any detail this morning.

- ◆ Turning to 2016 – our business has been quite active as volatility has picked up. We've had a great start to the year, with a new record monthly ADV of 18.2 million in January and record energy volume. In addition, total options, including electronic options, were well above previous levels. Related to options, there are many firms utilizing more complex trading strategies as the markets have become electronified. We are seeing enhanced liquidity within different strikes and expirations in many products, as many market participants have more data and better tools to manage heightened levels of risk. There was an insightful report recently from the Tabb Group on this very topic. Exchanges that have invested in meaningful options activity should benefit on a going forward basis.
- ◆ One more point on January, the volume from outside the US was 26 percent of the total volume, up from the 24 percent we averaged during 2015. It is very nice to see the global participation and increased activity throughout the entire day.
- ◆ It is also worth noting that our open interest grew by 16.5 million contracts or 18 percent during the month of January compared to the year end and all products have seen higher open interest. This is by far the largest open interest increase we have seen from the prior month. In January, energy volume from outside the US grew by more than 80 percent vs the prior year, while equity volume rose more than 65 percent.
- ◆ While we don't provide guidance on our volume, we do know our product diversity is unmatched, and has been very helpful over the years in different environments. We have had a large number of repeat clients who utilize our markets every day, and an expanding number of new clients that we are pursuing with multiple sales campaigns. Clearly, there are diverging opinions related to volatility, global risk and political uncertainty. We don't control these things - our work is centered on

growing the number of tools available to our clients to help them manage their risk.

- ◆ With that, I am going to turn the call over to John to discuss the financials. Thank you.

## **John Pietrowicz**

- Thank you Gill, and good morning everyone.
- ◆ CME had a solid fourth quarter and an excellent year.
- ◆ The full year revenue increased by 7 percent, while total adjusted expense was down by 1 percent. During the year, we increased adjusted operating margins from 58 percent to 61 percent. Our adjusted EPS and net income year-over-year growth were both above 14 percent in 2015.
- ◆ In Q4 last year, we had the second highest volume in our history, which made for a tough comparison. I'll start with some revenue details for the fourth quarter:
- ◆ The rate per contract for the fourth quarter was 78.9 cents, up 4 percent from 75.9 cents in Q3. Overall, we had an increased proportion of the volume from higher paying non members during the quarter, and also had strong energy volume, which is one of our higher RPC products. The energy RPC rebounded to \$1.23 per contract, up 3.5 cents from the prior quarter due to positive mix shifts within the energy product line from lower priced power to higher priced natural gas contracts and energy swaps on Clearport. Non member activity in energy was also significant during the quarter.
- ◆ Adjusted operating expenses for the fourth quarter were \$337 million, exactly where we guided.
- ◆ In terms of headcount, we ended the year with 2,530 employees, basically flat relative to the end of the third quarter. Our compensation ratio for the year came in at 16.1 percent compared to 17 percent in 2014.

- ◆ Looking at the non-operating income and expense line, our ownership in the S&P Dow Jones joint venture drove \$25 million in net earnings from unconsolidated subsidiaries, which was up 13 percent from the prior year. We remain pleased with the investment we made in the index business, while also assuring we continue to offer the world's leading index futures products on CME.
- ◆ Turning to taxes, for the full year we ended at 36.4 percent, slightly below the 36.6 percent range we expected. As a result, the effective tax rate for the quarter was 35.9 percent.
- ◆ And now to the balance sheet – at the end of the fourth quarter, we had \$1.87 billion in cash, restricted cash and marketable securities. In January, we returned almost \$1 billion to shareholders in our variable dividend. Earlier this week, we announced a 20 percent increase in our regular dividend from 50 cents per share to 60 cents. Our dividend yield over the last 4 years has been more than 5 percent, and we plan to continue to return excess capital to our shareholders.
- ◆ During the fourth quarter, capital expenditures, net of leasehold improvement allowances were \$28 million, and for the full year we came in at \$113 million. Our build out of our New York office space has been completed. We have also made reductions in our data center footprint, and we continue to examine opportunities for efficiency there.
- ◆ Looking ahead to guidance for 2016, let me start with operating expenses. We will continue to be as efficient as possible as we execute on our strategy, with an eye to free up dollars to spend on growth initiatives.

- ◆ Going into 2016, we are providing guidance for total expense excluding our licensing and other fee agreements. In 2015, our non-license fee related expenses totaled \$1.171 billion. Based on our current plans and business mix, I expect that to increase by a modest one percent to approximately \$1.185 billion.
- ◆ As many of you know, the forecasted license fees are driven by your assumptions on equities, energy and other cleared swaps volumes.
- ◆ In terms of revenue, as a reminder, we implemented the 2016 transaction fee increase across all six product areas beginning in January and we expect the transaction fee revenue to increase approximately 2 percent assuming the same volume levels and product mix.
- ◆ In addition, our market data clients who previously received a fee waiver are moving from \$42.50 per month per screen to \$85 per month per screen which is the same level our other customers currently pay. We expect our market data revenue to increase by 4 to 5 percent in 2016.
- ◆ A couple of additional items. For modeling purposes, at this point I expect taxes to be at a similar level to 2015, at 36.5 percent.
- ◆ I expect CAPEX to come in between \$115 million and \$120 million in 2016. In terms of capital expenditures, we continue to execute our efficiency program that we started last year to reduce operating expenses to pay for new growth initiatives, reduce the unit cost of critical systems by keeping cost flat while increasing capacity, and by leveraging more software and infrastructure as a service, which tends to flow through expenses rather than capital expenditures.

- ◆ In summary, I am very pleased with the hard work this year throughout the company. As you know, operating leverage in our business is significant, and that was clearly evidenced this year. We plan to continue to grow our top line and drive as much revenue to our bottom line as possible and into our healthy growing dividend stream.
- ◆ With that, we'd like to open up the call for your questions. Given the number of analysts who cover us, we ask that you limit yourself to one question, so we can get to everyone. Please feel free to get back into the queue, if you have any further questions. 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, develop strategic relationships and attract new customers; our ability to expand and offer our products outside the United States; changes in domestic and non-U.S. regulations, including the impact of any changes in domestic and foreign laws or government policy with respect to 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; 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 financial safeguards package to adequately protect us from the credit risks of clearing members; 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; changes in price levels and volatility in the derivatives markets and in underlying equity, foreign exchange, interest rate and commodities markets; economic, 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 and control the costs associated with our strategy for acquisitions, investments and alliances; 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 on futures transactions and/or repeal of the 60/40 tax treatment of such transactions; the unfavorable resolution of material legal proceedings; and the seasonality of the futures business. For a detailed discussion of 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.*